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COVER PHOTO: JEFFREY FRANCISCO CRUZ—SUPERSTOCK, INC.

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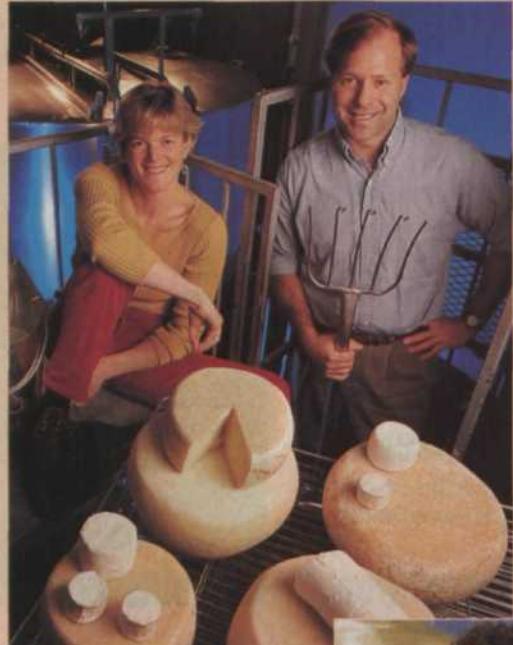


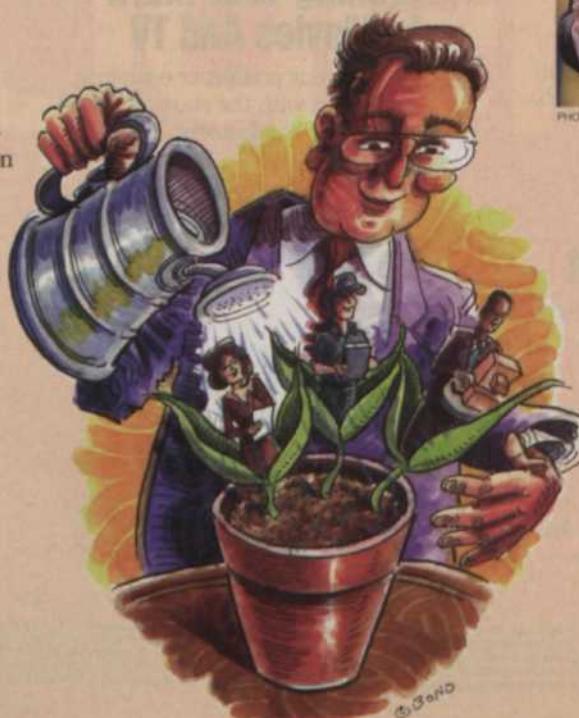
PHOTO: WEBB CHAPPELL

Specialty-cheese makers Allison R. Hooper and Robert A. Reese turned their \$2,000 investment into the \$3 million Vermont Butter and Cheese Co.

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PHOTO: BLAKE SELL - REUTERS

Appearing on screen with celebrities like Tom Hanks could spell stardom for your product.

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Cultivate your employees' job growth, and their productivity will flower.

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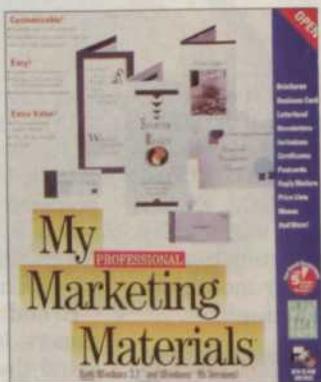


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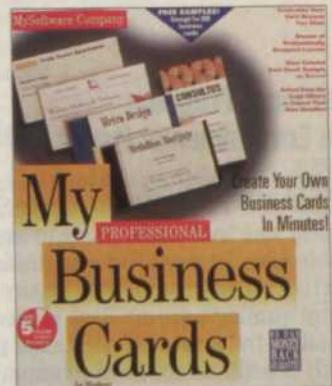
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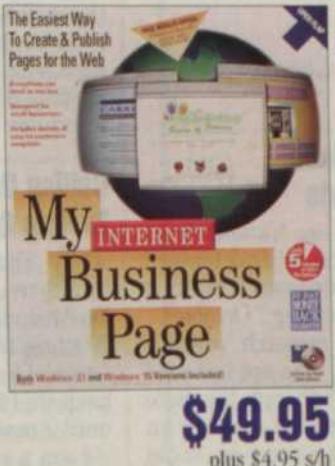
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Changing Our Look

Producing a more visually appealing magazine is high on our priority list, and you'll see our move to a more contemporary look reflected on our Contents pages this month. Our covers, too, will be more lively and engaging, as will the rest of the magazine as we introduce other design improvements.

This month's main cover topic and the story related to it deal with an important issue—sexual harassment, which is not always as blatant as it is in the photo at right. And it's a matter that employers might be tempted to ignore, particularly if they think it doesn't occur in their workplaces.

Our Cover Story, written by Senior Editor Michael Barrier and beginning on Page 14, details why employers can't afford to ignore even the possibility of sexual harassment if they want to be protected from liability in court. I urge you to read this article and take precautions now. Make protecting your company against liability—and your workers against harassment—a New Year's resolution. And be sure to keep it.

On another matter, if you have a home office, it may be time to update it. If you plan to establish one, now may be a good time to do so. Either situation warrants a look at new options worth considering, and Assistant Editor Tim McCollum outlines them in "A High-Tech Edge For Home Offices," starting on Page 52. That's McCollum in the photo at left in his newly established home office in Cincinnati.

When you've finished with this issue, be sure to watch for our January edition, which will feature the 1999 Small Business Outlook, including what leading economists say is in store.

Happy holidays from all of us at *Nation's Business*, and best wishes for a happy and prosperous new year.



PHOTO: SIMON CALLAWAY



PHOTO: ©FRANK GARNER—THE STOCK MARKET

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Letters

Putting A Premium On Environmental Issues

 One of the points made in "The EPA's New Reach" [Cover Story, October] was that under the Environmental Protection Agency's "interim guidance" directive on environmental justice, a company wanting a permit for a plant can offer to offset the impact of additional pollution with benefits to the local community, such as jobs.

This is absolutely insane. Are we now saying that it is OK to pollute the environment if jobs are created in doing so?

Additionally, if a proposed plant that received a permit did not pose an additional risk to human health or the environment, why would it be opposed? Supposedly the responsible environmental-regulation agency would already have taken this into account when deciding to issue the permit.

We need to look at environmental issues, not social issues.

*Coogan Preston, Project Manager
Computer Systems Technology Inc.
Huntsville, Ala.*

An Activist Speaks Out

 I expect a business publication to have a pro-business slant in most of its articles. I was not prepared, however, for the reactionary, slanted, and anti-environmental tone of "The EPA's New Reach."

As an urban environmental activist and a member of the Lawrence (Mass.) Environmental Justice Council, I was saddened as much by what the article left out as by what it distorted. Environmental justice is not merely a means to achieve social justice, although the two are often linked.

The environmental-justice movement is also about reaching out to poor, minority communities, to those who are undereducated, have few opportunities, and don't know what is going on in their own back yard. That is another part of the equation: providing citizens with the tools and knowledge they need to make sound decisions about their communities.

A toxic-waste-handling plant does not help a neighborhood; a polluting polyvinyl-chloride factory does not improve the quality of life of those who live next to it. Does the business community honestly believe

that it is acceptable to harm the environment and people in the name of profits?

The inaccurate slant of the article was evident in the interview with Carol Browner, administrator of the EPA. A question to Browner implied that the EPA was sitting on studies indicating that minorities were not necessarily more likely to live near polluted sites than whites.



Browner set the record straight when she said not only that the never-completed study was not about permitted facilities but about Superfund (toxic-waste cleanup) sites, but also that the study found that in some parts of the country there was a greater likelihood for sites to be in minority communities.

*Tennis W. Lilly
Lawrence Environmental Justice Council
Lawrence, Mass.*

Research Is A Key Piece To The Branding Puzzle

 I was pleased to see *Nation's Business* highlight the critical topic of branding for small businesses ["Making Your Mark Through Branding," October].

The topic of consumer research, which is paramount in branding, was not included in the article, however. Although the piece did stress the importance of making an "indelible impression" on consumers, it did not discuss how the appropriateness of

that impression is determined.

One-way communication is marketing at its most basic: The brand communicates to the consumer. This strategy is not practiced by any brand that wishes to live past a short-term trend in the ever-changing environment of consumer fashions and life experience.

Brand planning is responsive to consumers. It incorporates research to understand the language, needs, and motivations of consumers; to verify the efficacy of communication messages and delivery systems; and to gauge the potency of the brand message to the target audience.

Branding is not a set of marketing choices made by an uninformed management. Rather, branding strategy is used primarily to ensure that a company's products, services, and communications remain applicable to the daily lives of the firm's core audience.

*Emma Sabin, Brand Planner
Portico Research
New York City*

Showing Too Much Caution On A Social Security Cure?

 In "Pointing The Way To Social Security Reform" [Editorial, October], the list of suggestions on what to do about Social Security said that any increase in the retirement age should reflect actual trends in age and health at retirement.

At the same time, the editorial opened by noting that demographics have been driving Social Security toward bankruptcy.

In 1935, when the system was created, the median life span was 65 years. Now it is 75 years. Workers are supporting the aged a lot longer than they used to.

*Thomas Allen
Lancaster, Texas*

Calling On Businesses To Help Clarify The ADA

 Thank you for your coverage of entrepreneurs with disabilities ["Can-Do Attitudes And The Disabled," May, and "Putting The Person Before The Disability," Letters, September]. It is critical that we keep this topic in the mainstream media until it ceases to become a separate issue.

I am a survivor of a polio epidemic in 1949, before Jonas Salk developed his vac-

cine. From 1975 until 1991, when I founded Latta Enterprises—a consulting firm that specializes in issues related to the Americans with Disabilities Act (ADA) and accessibility and safety for people with disabilities—I was a professional and a leader in special education and health and human services.

When the ADA was passed in 1990, I brought my mission in life and my career together to help businesses know how to become accessible, not only in their physical structures but in their operations.

In 1993, I had to choose between walking and breathing, so now I am a full-time user of a wheelchair. That changed my life but did not define it. I am still a business owner.

I have faced not only all the usual issues that a small-business owner must tackle but also the added challenge of never being sure there will be access—yes, even in 1998. This is largely because the U.S. Department of Justice wrote the ADA in a way that creates an enforcement nightmare. I have complained to the department about this, but it did not believe I had a valid complaint.

If there are business owners who feel that the Justice Department has made it difficult for them to comply with the ADA, I would like to see them stand up and present a strong, unified voice telling the department to clear up the enforcement issue.

We need the ADA and its intent. Unfortunately, between the confusion created by the Justice Department and the laxity of local enforcement, the law has become one that businesses love to hate.

*Marie B. Latta, Founder
Latta Enterprises
Atlanta*

[Editor's Note: For more on the ADA and on how people with disabilities can succeed in the business world, see "Clearing Up Confusion On Hiring The Disabled," Page 55, and "Getting Answers On Hiring The Disabled," November.]

Casting A Wary Eye On 'Capitated' Health Care

 I read with interest "The Backlash Against Managed Care" [Cover Story, July]. Although the article outlined the basic types of managed-care plans, it neglected to discuss an important physician-reimbursement scheme in the recent managed-care marketplace: capitation.

Under capitated care, physicians receive a fixed monthly compensation per patient



under their care regardless of how much the patient uses health-care services. The doctor incurs a loss if the costs of tests and procedures for a given patient exceed the monthly allowance for that patient. Conversely, if the costs are less than the allowance, the doctor makes a profit.

In effect, this pits the physician's financial interest directly against the patient's best interest. Less care means more profit—the underlying paradigm of managed care. By assuming the financial as well as the medical and legal risks of providing health care, physicians have no incentive to inform their patients of different treatment options, much less perform them.

Safeguards are needed to protect the public against the consequences of capitation on the quality of health care. Leaders in government and business, as well as ordinary citizens, need to realize that high-quality, high-tech, modern medicine comes at a price. The nation's unwillingness to accept this reality has forced upon physicians the task of ra-

tioning—not providing—health care.

Business leaders should realize that quality health care costs money. Perhaps if small-business owners and their families were subjected to the same health care as their employees, they would be leading the backlash against managed care.

*Dr. George Tanaka
Pacific Eye Associates
San Francisco*

Correction

In "Getting Control Of All The Paper" [November], the name of Craig Miller's software consulting and placement firm in Atlanta should have been MA&A Group.

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ENTREPRENEUR'S NOTEBOOK

By Brent Frei

If luck is what happens when preparation meets opportunity, then my company, ONYX Software Corp., has been extremely lucky.

Since opening in 1994, ONYX, which creates and markets customer-management software, has experienced triple-digit revenue growth each year. As a result, the number of employees has grown from six to 300, and the company has offices around the world.

Forecasting a company's potential for rapid growth isn't difficult, especially in an industry such as ours, which is expanding by 40 to 50 percent annually. But capitalizing on opportunities and managing the results takes work and preparation.

No matter how great the boom, things can and will go bust without a solid foundation on which to build. Here are some cornerstones for making the most of your opportunities for growth:

To thine own self be true. At ONYX, we knew exactly what kind of company—not just what product—we wanted to create.

To that end, we have tried to recruit and hire people not only on the basis of their job skills but also on how well their goals and personal characteristics matched the company's.

We also have worked hard at being consistent in communicating our expectations and values. The company is growing, but we don't want that to change the core culture that attracted many of our employees.

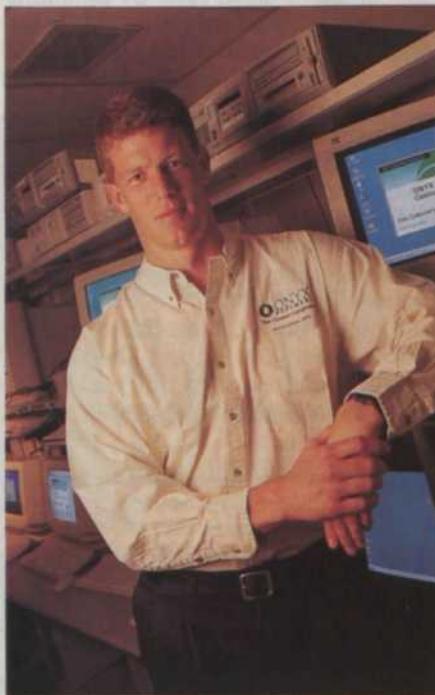
Make sure everyone is on the same page. Any company can become ineffective if communication between departments breaks down or if priorities concerning customers become misaligned. Keeping all of a company's players on the same page with regard to customers is what our software is designed to do, and

Brent Frei is president and CEO of ONYX Software Corp. in Bellevue, Wash. He prepared this account with Contributing Editor Susan Biddle Jaffe.

Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20006-2000.

it's also what we have tried to do with our own team as we have grown.

Tracking a customer's relationship with your company, from sales to service, not



Maintaining his company's original style and attitude is important to Brent Frei, president and CEO of ONYX Software Corp., which has experienced rapid growth since its founding in 1994.

only allows you to avoid misaligned processes—for example, sales pitches being made when support calls for already-purchased products went unanswered—but also lets you synchronize departmental and corporate priorities to the fullest.

How many people to hire isn't the issue. Forecasting how many salespeople you'll need to handle projected growth is easy. How the company handles those new hires will determine whether the company remains efficient and supports its growth rather than succumbs to it.

One key is to anticipate "breaking points"—the places where there's potential for new hires to not be integrated fully into the company's system, for example, or

Taking The Pain Out Of Growing

where procedures and policies could become scrambled.

One way to pre-empt such problems is to put a lot of focus on hiring the right support staff.

You need human-resources and operations personnel who know how to handle the issues that come with expansion, such as training, compensation plans, and office setups.

Even deep wells go dry. Young companies tend to set aggressive targets for revenues and expenses. That sometimes leaves little cash flow for dry spells. But expenses have to be covered even if the company hasn't hit its revenue goal. No matter how good things look, the company must have a contingency plan in case things turn bad so the business can continue to move forward.

Keep the lines of communication open. In a company's early days, the boss knows everyone. But skyrocketing growth can change that.

If you want the company to continue to function with the attitude and style it had at the beginning, continue to talk to your employees.

Maintain an open-door policy, get out and meet with workers, and establish rapport with them.

If you are lucky enough to grow rapidly, you must be prepared to not let that growth change the values that made you successful.

WHAT I LEARNED

Staying true to the things that made a company successful can help it make the most of its opportunities for expansion.

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Dateline: Washington

Business news in brief from the nation's capital

FEDERAL BUDGET

Small Firms Do Well In Huge Spending Bill

Small businesses had some important matters at stake during the end-of-session negotiations between Congress and President Clinton over spending for fiscal 1999, which began Oct. 1.

In the end—which came weeks later than planned—there was more good news than bad for entrepreneurs in the \$520 billion measure that took the place of eight of the 13 annual appropriations bills. The House passed the omnibus measure 333-95 on

Oct. 20; the Senate approved it 65-29 on Oct. 21. Clinton signed the bill into law the same day. The other five spending bills were enacted separately.

Among the key small-business-related provisions of the catchall bill were:

Health-Care Premiums. The phase-in of full tax deductibility of health-insurance premiums paid by the self-employed was accelerated, with full deductibility to take effect in 2003 rather than the previously scheduled 2007.

This year, 45 percent of health-insurance premiums are deductible. The percentage will rise to 60 percent for 1999, 2000, and 2001; to 70 percent for 2002; and to 100 percent for 2003 and beyond.

Businesses with employees can deduct all the costs of health insurance.

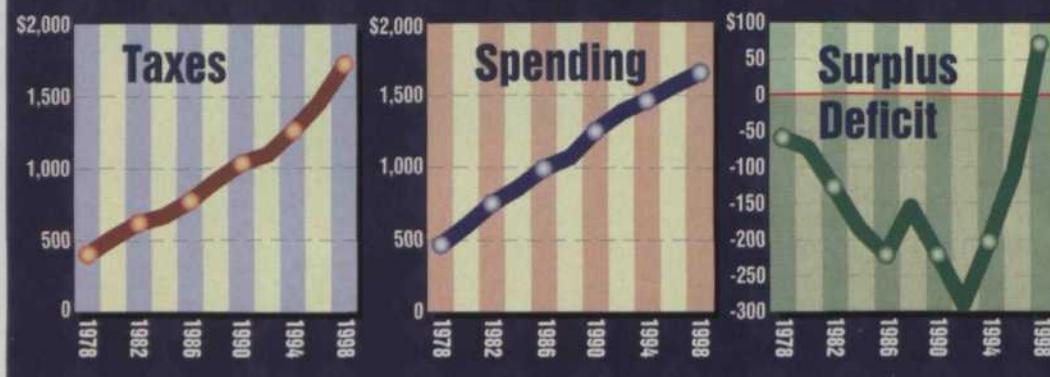
Extension Of Tax Credits. Several popular tax credits important to small businesses were extended until June 30, 1999. They are the research-and-experimentation tax credit, the work-opportunity tax credit, and the welfare-to-work tax credit. All were set to expire or had expired and were extended retroactively.

The two work credits give employers a credit against taxes owed in exchange for hiring disadvantaged people. The research credit is based on a percentage of R&E spending over a base amount.

Internet Tax. Buying through the Internet will be a relative bargain for at least

The Results Of Federal Budget Policies, 1978-98

(In Billions Of Dollars)



SOURCES: U.S. OFFICE OF MANAGEMENT AND BUDGET; CONGRESSIONAL BUDGET OFFICE

CHART: ALBERTO PACHECO

three years, the time frame of a moratorium imposed on new state and local taxation of transactions conducted over the Internet and on Internet-access costs.

Over the three years, a 19-member commission of state and federal officials and private-sector representatives will study the issue to determine how online transactions should be taxed.

Supporters of the moratorium argued that the ban was necessary to promote the growth of online commerce and to relieve online merchants, most of whom have small firms, of having to deal with inconsistent state and local tax rates. Opponents argued that the moratorium would deprive state and local governments of needed sales-tax revenue.

Ceilings On Visas. The number of six-year H-1B visas for highly skilled immigrants was increased for several years from the current 65,000 a year. For 1999 and 2000, the limit will rise to 115,000; the cap will fall to 107,500 for 2001 and revert to 65,000 beginning in 2002.

The provision was approved in response to complaints by businesses that there are not enough qualified skilled workers available to fill many of the technology-based jobs available.

Border Checks. Lawmakers approved a 30-month delay in installing an automated entry-exit control system to collect data on aliens at every U.S. border-crossing point. The system is required under Section

110 of the 1996 immigration-reform law. Critics of the plan say the Immigration and Naturalization Service does not have the capability or the technology to carry it out.

Breaks For Farmers. Farmers will receive \$5.9 billion in disaster assistance, up from the \$4.2 billion specified in the regular agriculture appropriations bill that Clinton had vetoed earlier.

The measure makes permanent income averaging for farmers, effective for tax years beginning after 2000. Income averaging protects farmers from high tax bills by allowing them to even out wide swings in income when prices for the goods they produce fluctuate sharply from year to year.

The bill also allows farmers to "carry back" operating losses for five years to reduce taxes owed in previous, more profitable years; this provision is effective for taxable years beginning after 1997.

Global Financial Crisis. The International Monetary Fund will get the \$17.9 billion the White House sought to replenish the organization's coffers, which were depleted when aid was given to some Asian nations and Russia.

In exchange for the cash infusion, however, the IMF must accept some internal operating reforms proposed by congressional Republicans.

Anti-Drug Funds. The bill contains \$4 million that the U.S. Small Business Administration can use to set up demonstra-

FEDERAL BUDGET

tion projects to reduce drugs in the workplace and to provide technical advice to small businesses about setting up anti-drug programs.

The grants will be administered by the SBA's Small Business Development Centers nationwide. Proponents argued that while big businesses have the resources to develop anti-drug programs, small businesses have neither the resources nor the expertise to do so.

Additional Measures

Reform of consumer-bankruptcy laws—which was not part of the big spending package—died when Congress adjourned Oct. 21. The Clinton administration had signaled disapproval of a House-Senate compromise. The White House had endorsed the Senate version, but the compromise was closer to the House bill, which was more favorable to creditors.

Also, the Environmental Protection Agency was barred in its appropriations bill from accepting during the current fiscal year any new civil-rights complaints under its "environmental justice" policy, which seeks to apply anti-discrimination laws to decisions on siting industrial plants. Complaints currently on file were not affected. (See "The EPA's New Reach," October.) The EPA also was barred from using funds during 1999 to try to implement provisions of a global-warming treaty negotiated in 1997 that the Clinton administration endorsed but that met strong opposition in Congress.

—James Worsham

TAXES**Social Security Tax Ceiling
On Wages Rises To \$72,600**

In 1999, the ceiling will rise again on the amount of an individual's wages subject to the Social Security tax paid by employers and wage earners. The tax will be levied on the first \$72,600 of wages earned, up from \$68,400 in 1998.

Under a 1993 law, all wages earned are subject to the Medicare tax, which helps finance the federal health-insurance program for the elderly and the disabled.

The Social Security tax rate will remain unchanged from the 1998 rates—6.2 percent each for employer and employee. The Medicare tax rate will remain at 1.45 percent each.

The rate for the self-employed, who pay both the employer and the employee shares of the payroll tax, will remain at 15.3 percent—12.4 percent for Social Security and 2.9 percent for Medicare.

Social Security recipients will receive a 1.3 percent cost-of-living increase beginning with their January 1999 checks. The higher benefit was calculated based on increases in the Consumer Price Index over the previous year.

The same rate increase is applied to some private-sector pension plans and some other federal benefits payments. The 1999 cost-of-living increase ties the record-low 1.3 percent increase that took effect in January 1987.

Also, under a 1996 law, the earnings limit for Social Security beneficiaries ages

65 to 69 will increase to \$15,500 in 1999, up from \$14,500 in 1998. Recipients lose \$1 in benefits for every \$3 earned over the limit.

The earnings amount at which individuals ages 62 to 64 begin losing \$1 in benefits for every \$2 earned rises to \$9,600, up from \$9,120 in 1998. There is no earnings limit for those age 70 or older.

The maximum monthly Social Security benefit for a worker retiring during 1999 at age 65 is \$1,373, up from \$1,342 in 1998.

—Albert G. Holzinger

POSTAL REGULATIONS**Bill On Changing Postal Services
And Rates Advances But Dies**

A proposed landmark overhaul of the law governing operations of the U.S. Postal Service emerged from a House subcommittee after nearly two years of work but died when Congress adjourned. The measure, H.R. 22, would have set separate rules for the services that the agency performs in competition with private business and for the services that it provides exclusively.

Sponsored by Rep. John M. McHugh, R-N.Y., the bill was approved 6-0 on Sept. 24 by the House Government Reform Subcommittee on the Postal Service, which McHugh chairs.

The bill likely will be resurrected in the next Congress, which will convene in late January.

The measure was designed to give the Postal Service more flexibility to revise rates for services, such as parcel delivery, for which it has strong competition. The bill would establish new criteria—including a formula similar to the Consumer Price Index—for changing rates for services that only the Postal Service provides, such as delivering first-class letters.

Currently, changes in such rates are subject to lengthy review by the independent Postal Rate Commission and the Postal Service's Board of Governors.

McHugh's proposal would have allowed the Postal Service to set up a separate, private corporation to offer services and sell products not primarily postal in nature, such as "pack-and-send" services—tested by the Postal Service last year and opposed by private companies offering similar services—and "boutique" items such as T-shirts and coffee mugs. (See "Postal Service Not Backing Down," September.)

Rep. Mark Sanford, R-S.C., said Congress should take care to ensure that such a corporation does not become "a giant Godzilla" threatening small businesses that offer products and services similar to any that the Postal Service might decide to offer.

THE INTERNET**Registration System For Online
Domain Names Is Extended**

The U.S. Department of Commerce has extended its agreement with Network Solutions Inc. in Herndon, Va., to be the exclusi-

based registration system. Under terms of the agreement, control of the domain-name system will be moved to a nonprofit corporation beginning in March 1999.

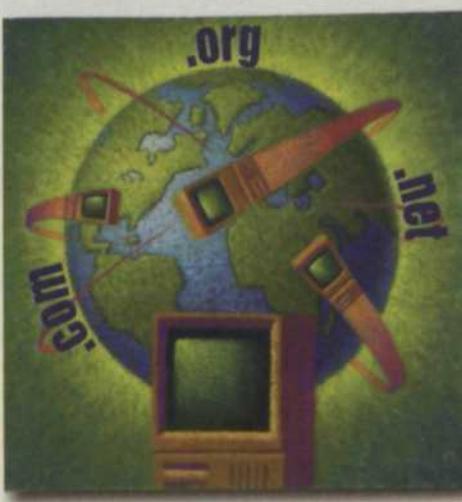
Since 1993, Network Solutions has had exclusive rights to manage the system of domain names—such as that of *Nation's Business*, www.nbmag.com—in the .com, .net, and .org classifications. The rights were granted by an agreement with the Commerce Department's National Telecommunications and Information Administration.

The agreement expired in March, but Network Solutions will remain the registrar while the new system is being implemented.

Under the new agreement, Network Solutions will transfer technical information necessary for establishing domain names to the new nonprofit corporation, which has yet to be named. Network Solutions will then compete with other firms to sell domain names.

The system will also provide a means for creating new commercial domain classifications, such as .biz and .tv.

—Tim McCollum



sive registrar of Internet addresses—called domain names—for the two years it will take to make the transition to a market-

Managing Your Small Business

Making employees a priority; taking chores off companies' hands; generating news coverage electronically.

By Thomas Love

WORK FORCE

Yes, Virginia, There Are Good Workers

When Bennett and Patricia Kopp opened their Charley's Steakery franchise in Knoxville, Tenn., six years ago, they had heard all the talk about how "you just can't find good help," says Bennett Kopp. "We heard that American workers were lazy, shiftless, and dishonest. In addition, we heard that America's youths were unfocused, lacked morals, were incapable of commitment, and had no pride.

"To this my wife and I said, 'Balderdash!'"

The Kopps say the success of their deli-style restaurant is attributable largely to their relationship with their workers.

"I think the emphasis must be on the workers first and the customer second," says Bennett. That might seem illogical to a lot of employers, he says, "but unless you have competent, well-trained, happy [workers], you shouldn't even consider trying to go to the public."

The Kopps say their young employees have taught them many things about running a business. "We have become very successful because we listened to them" and treated them well, says Bennett.

"We all set standards for our families," he explains. After he was downsized out of his corporate job, "Patty and I didn't have any idea how to operate in this new world, so we just used those same [family] standards for our workers. We told them, 'You'll be treated the way we like to be treated.'

He tells employees they are expected to be honest. An employee who doesn't feel well enough to come to work, for example, should be straightforward about it and not make up an excuse about a sick aunt.

Kopp says that many of his workers had never been subject to such standards at

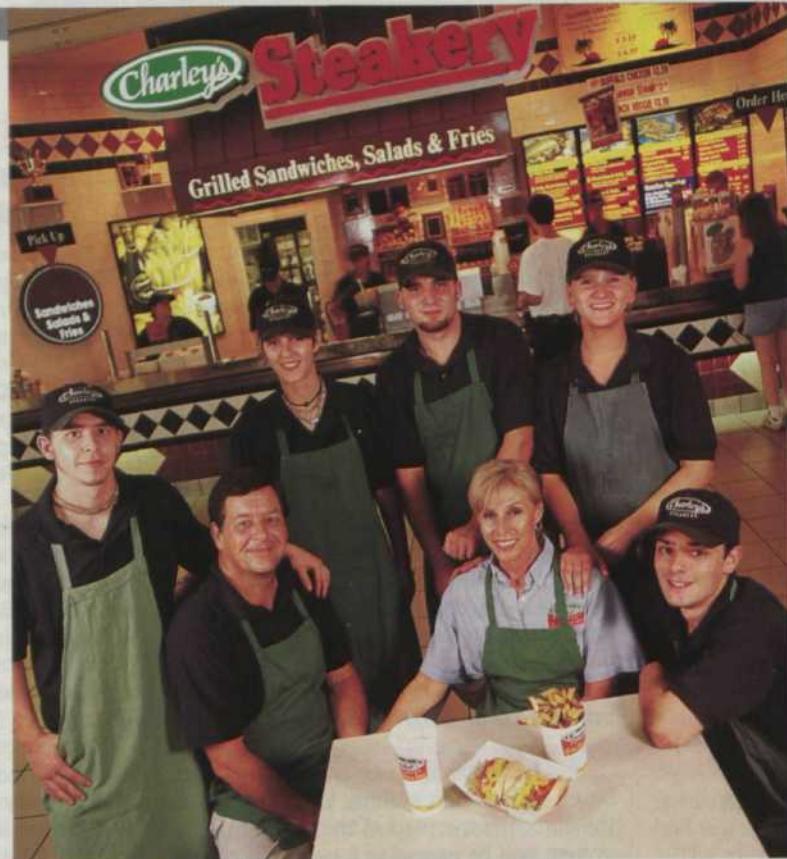


PHOTO: DAVID LUTTRELL—MERCURY PICTURES

A family-like relationship between Charley's Steakery franchise owners Bennett and Patricia Kopp, seated center, and their young employees has helped make the restaurant a success.

home or at school but that they now appreciate the ground rules. His workers seldom are late or fail to show up for work, he says.

The restaurant has monthly, weekly, and shift-specific incentive programs offering cash or paid time off to exceptional performers. Winners are chosen by their co-workers.

During the hectic Thanksgiving-to-Christmas season, employees are offered the "Patty Bucks Team Incentive Program," which uses dollar-bill-sized certificates imprinted with pictures of Patricia.

The certificates are given to every worker on a shift for each hour that sales exceeded those of the same shift a year earlier, for each week of perfect attendance, and for other "specific accomplishments above and beyond the norm."

On the Sunday before Christmas, the

Patty Bucks are used at an auction in bidding for about \$4,000 worth of merchandise, including televisions, videocassette recorders, compact-disc players, microwave ovens, and gift certificates.

The program might sound expensive, but it pays off in a big way, the Kopps say. If workers enjoy their jobs they will stay and will tell their friends that they work at a great place. That can help in recruiting.

Does the Kopps' approach work? They started with 15 workers. Now their business has grown and they have 27 employees—including the original 15.

The Kopps' employee-based success led to their company being named a 1998 honoree in the Blue Chip Enterprise Initiative, an annual program that recognizes small firms that have met significant challenges. The program is sponsored by Massachusetts Mutual Life Insurance Co.

(known as MassMutual—The Blue Chip Co.), the U.S. Chamber of Commerce, and *Nation's Business*. ■

NB TIP

Writing It Right

Business-related writing doesn't have to be dry and dull. The New York City-based American Management Association, which offers seminars on this and other topics, says almost anyone can improve the way they communicate with prospective clients, co-workers, and others. It pays to organize your thoughts before you write, to learn to write the way business people read (or want to read), to capture the reader's attention from the start, to avoid sounding too formal, and to tailor your message to your specific audience. ■

INNOVATION



PHOTO: GARNOLD ADLER

Using a database and a newsletter, Brenda Rezak of Affairs to Remember has won jobs planning events that companies used to handle on their own.

Getting Paid For Services That Firms Used To Do Themselves

Brenda Rezak, president of Affairs to Remember, a New York City-based event planning and marketing company, has been successful in charging people for what they had been doing on their own for years.

Rezak's firm plans and manages employee and retirement parties, award dinners, picnics, client entertainment, and similar events for companies. How does she sell these services to companies that had been handling the same things in-house?

Rezak, who has a background in sales, says the technique that has proved success-

ful involves cold-calling companies and asking for the person who plans events. If the planner says that everything is handled in-house, Rezak enters his or her name in a computer database. Three or four times a year, Rezak mails those in the database a newsletter that contains tips on planning and hosting successful events.

That may seem counterproductive, but it has proved to be exactly the opposite, Rezak says. "I've been told that my newsletter is very informative, so after people read it they put it in their files." That keeps her firm's name and its services at the event planners' fingertips, she explains.

Here's an example of how her strat-

PROMOTION

Effective Use Of E-Mail Can Garner News Coverage

Electronic mail can be an effective way to get news coverage without spending a lot of money, says Paul J. Krupin, president of Direct Contact Publishing in Kennewick, Wash. The company publishes the *U.S. All Media E-mail Directory*, which lists more than 10,000 media contacts.

The golden rule for getting publicity through e-mail is to target and personalize, Krupin says. He offers specific tips for creating e-mail that will be picked up by the media. Among them:

■ Think before you write. Decide why you are writing and what you are trying to accomplish. Put yourself in the position of the people reading your e-mail. Will they publish it or delete it?

■ Target narrowly and carefully. Study the media you want to reach. When decid-

ing on contacts, go for quality, not quantity.

■ Keep it short—no more than four paragraphs.

■ Tailor the material to the editorial style of the addressee. Study the contact's style and content beforehand.

■ Keep your subject and the content of your message relevant to the target.

■ Address each e-mail message separately to an individual target. Sending e-mail to multiple addressees is the easiest way to get it deleted without being read.

■ Be honest with yourself and with your media contacts. Don't make claims you can't prove.

■ Follow up in a timely manner, with precision writing and professionalism.

The *U.S. All Media E-mail Directory* is available for \$79 in printed form or \$99 in electronic-database format. Call 1-800-457-8746 or visit the company's site on the World Wide Web at www.imediafax.com.

egy has worked: This year, a staff person at a nonprofit organization was assigned to stage a gala event. The woman told the organization's director of development that she couldn't do the job by herself. Rezak had met the director three years earlier, had put him in her database, and had been mailing her newsletter to him. The result: a job for Affairs to Remember.

"In some way, in some form, you always have to be in front" of potential clients, says Rezak, who adds that her business has grown considerably in the past few years by following that simple rule.

THE WORKPLACE

Sexual-Harassment Compliance By Phone

One way for a company to comply with the Supreme Court's recent decision holding employers strictly liable for acts of sexual harassment in the workplace is to use a third-party system to handle complaints.

George Howes, president of T.R. Anton Inc. of Laguna Niguel, Calif., which operates such a service—Harassment Hotline—says companies such as his can handle the whole process quickly and without bias, then can provide incontestable evidence to meet an employer's burden of proof under the law.

An employer signing up with Harassment Hotline receives information on how to set up a legally compliant program, how to train employees, and how to disseminate the information required by law to inform employees of how to make a complaint. The service costs \$695 per year for firms with less than 200 employees.

Company employees are given a code number for accessing the Harassment Hotline's toll-free complaint number. The person making a complaint reaches a recording, which poses a detailed set of questions.

Complaints are investigated by Harassment Hotline within 48 hours through phone interviews of everyone involved. A detailed report is then given to the employer.

"The Hotline 800 number provides even the most unassertive victim with a simple, private, and safe way to file a computerized complaint with an impartial third party," says Howes, a former police chief and city manager.

After handling more than 250 harassment complaints, Howes says that he has found most can be resolved before they escalate into dismissal or lawsuits—if they are handled properly and quickly.

You can find out more about Harassment Hotline by calling (949) 643-8489. For more information on the Supreme Court's sexual-harassment decision and on how to ensure that your company avoids problems in this area, see the Cover Story, on Page 14.

Sexual Harassment



PHOTO ILLUSTRATION: GEORGIA LEIGH MCDONALD

*The Supreme Court's message:
Put your policy in writing, communicate
it to every employee, and follow up on
complaints.*

By Michael Barrier

The Supreme Court issued two sexual-harassment rulings last summer that should both worry and hearten employers.

On the downside, the court ruled that under Title VII of the Civil Rights Act of 1964, companies can be held liable for the illegal harassing behavior of supervisors even when top managers had no idea that it was going on and were not negligent in any way. This was the strongest statement yet of employers' liability for supervisors' actions.

"It resolves all doubt about supervisors being liable for sexual harassment, whether the company knows about it or not," says Ernest Rossiello, a Chicago attorney who represented one victorious plaintiff, Kimberly Ellerth. "The Supreme Court has made it clear that companies will virtually automatically be liable."

On the upside, the court clearly explained for the first time how employers can insulate themselves from many if not all harassment suits.

The court's rulings in the two cases thus gave both sides something to celebrate.

The plaintiffs' supporters hailed what they called victories for harassed employees. "The court's decisions will literally benefit millions of Americans," said Steven R. Shapiro, national legal director of the American Civil Liberties Union, which had filed a brief in support of the plaintiff's position in one of the cases.

Attorneys on the business side said, though, that the new rules are tougher than before but are much easier to follow.

Under the two court decisions, "both the employer and the employee have clear responsibilities," says Stephen A. Bokat, executive vice president of the National Chamber Litigation Center, an affiliate of the U.S. Chamber of Commerce. "The employer is responsible for setting guidelines, and the employee is responsible for following them."

Both cases—*Faragher vs. City of Boca Raton* and *Burlington Industries vs. Ellerth*—involved sexual harassment by supervisors rather than co-workers. (For a summary of the two cases, see "The Cases Behind The Rules," Page 17.) In combination, the two cases—both won by the plaintiffs—reached these conclusions:

■ If a supervisor takes a "tangible employment action" against a sexually harassed employee—if, say, a male manager

fires or demotes a female subordinate because she rebuffed his advances—the employer is always liable for damages. It doesn't matter if the owners or top managers of the company had no knowledge of the supervisor's actions. Neither does it matter if they tried to prevent such harassment.

"There is no escape," says David A. Copus, an attorney who specializes in employment law in the Washington, D.C., office of Jones, Day, Reavis & Pogue. "The employer is dead meat."

■ If a supervisor's harassment of an employee is "severe or pervasive" to the point that it creates a "hostile work environment," the company can be liable for dam-

age advantage of it. That's called an "affirmative defense," as opposed to a defense based on the plaintiff's failing to prove his or her case. (For what's involved in setting up a successful anti-harassment program, see "Protecting Employees—And Your Business," Page 18.)

An affirmative defense requires companies not only to have a policy against sexual harassment but also to put it in writing, disseminate it, and enforce it. The court's decisions "create powerful new incentives for employers to formalize programs" that in the past were often informal, says Ronald W. Taylor, an employment lawyer with the Baltimore office of Venable, Baetjer and Howard, LLP.



PHOTO: CHUCK KENNEDY—KRT

Advocates for a strong ruling against sexual harassment marched outside the Supreme Court last spring during oral arguments in the case of *Burlington Industries vs. Ellerth*.

ages even when the supervisor didn't take any "tangible employment action." But the court instructed employers on how to avoid liability in hostile-work-environment cases.

A company can defend itself successfully if it can prove that it had an effective policy against harassment and that the employee alleging harassment failed to take

The Key Words

The harried small employer, with many other responsibilities, might be tempted to ask why it is so important to draw up a written policy on harassment rather than come down hard on such behavior if it shows up. In the case of the affirmative defense, the answer lies in these key

COVER STORY

words: "reasonable" and "unreasonable."

The employer must have made reasonable efforts to prevent and correct harassment; the employee must have unreasonably failed to take advantage of opportunities to prevent or correct the harassment.

"If the employer merely has an informal [harassment] policy, he's going to have to go through trial" to establish whether the company's efforts were reasonable, warns William J. Kilberg, a labor attorney with the Washington office of Gibson, Dunn & Crutcher, LLP. Conversely, a formal, written policy whose effectiveness can be demonstrated through affidavits can result in outright dismissal of a case.

The affirmative defense is "the one bone that the employer community received" from the Supreme Court's rulings, says Harry A. Rissetto, an attorney with the Washington office of Morgan, Lewis & Bockius, LLP. Rissetto represented the city of Boca Raton, Fla., in its case.

Perhaps more importantly, the Supreme Court, by laying out the elements of an affirmative defense, has told employers how to prevent a "hostile work environment" from ever arising, says Rissetto. "That's a lot better than having an affirmative defense," he adds, "because if there's no hostile environment, there's no liability."

In other words, if you prepare really well for an affirmative defense, you may never have to mount one. "Companies with effective anti-harassment policies do not end up in court," says Chicago attorney Rossiello.

Even when a strong anti-harassment policy can't protect an employer from liability—for instance, when a supervisor takes a "tangible employment action" against a harassed employee—it may provide a shield against ruinous awards of punitive damages. If an employer has an effective system and the employee didn't use it, that could help reduce the damages even when the employer is unquestionably liable.

The Need For Communication

The court's rulings point clearly to communication between the company and its employees as key to creating a strong and effective sexual-harassment policy. It's up to the company to articulate a clear standard of conduct in the workplace, says



PHOTO: CHUCK KENNEDY

Former lifeguard Beth Ann Faragher won a judgment against the city of Boca Raton, Fla., based on harassment by her supervisors.

Rissetto. The company can communicate its standard through orientation for new employees, for example, or through an employee handbook.

But communication cannot be a one-way street. The company must "create an environment where it is likely that an employee will complain to someone, as soon as possible, when inappropriate conduct occurs," says Rissetto. Because "in most situations hostile environments tend to accrete" through a succession of inappropriate acts, he says, employers need to encourage

harassed employees to complain early.

Likewise, an employee who is the target of harassment now has less incentive to keep quiet until the harassment gets bad enough to reach the hostile-environment level—that is, bad enough to justify a lawsuit. Says employment-law attorney Taylor: "Employees have an affirmative obligation to come forward and complain to minimize their own damages."

Says Rissetto, "I think the court believes that if the employer does it right, the employee will have the courage to complain."

A Question Of Reasonableness

Reasonableness—the legal concept at the heart of the affirmative defense—also comes into play when evaluating the validity of employee harassment complaints. The courts have held that an alleged harassment has to be offensive not just in the eyes of the person who claims to have been offended but also in the eyes of a hypothetical reasonable person.

The problem is, "we don't know what the

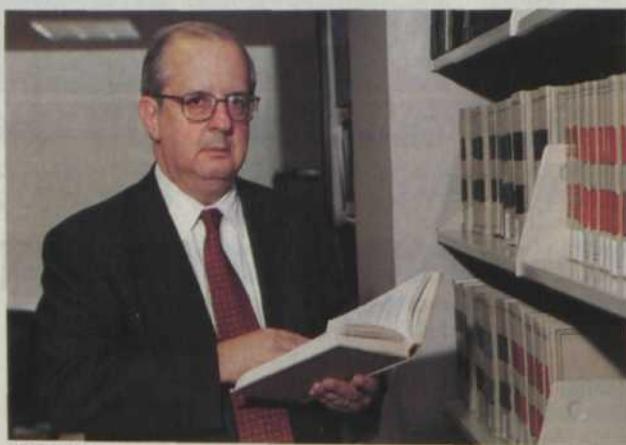


PHOTO: T. MICHAEL KEZA

Employers should encourage harassed employees to complain, says attorney Harry A. Rissetto

COVER STORY

[reasonableness] standard is," says labor lawyer Kilberg. "We know that it is a 'reasonable' person's standard, but we don't know if that person is a reasonable woman or a reasonable woman in a particular industry."

You won't be safe just because coarse language and sexual horseplay have always been common in your workplace. One problem, Kilberg says, is that relying on such a company culture "doesn't deal with the employee who starts work tomorrow."

Beyond that, says Andrea S. Christensen, an attorney with Kaye, Scholer, Fierman, Hays & Handler, LLP, in New York City, "it's very risky to assume that

everybody in the workplace shares in the same sense of humor. A lot of times, these environments that have a lot of sexual horseplay are environments that have had single-sex employees in the past, both male and female. There's a lot more freedom to engage in this kind of horseplay under those circumstances."

Now, though, she says, "it's not too difficult to pass over the line between social bypass and what becomes offensive, illegal conduct."

(That can happen even when everyone in a workplace is of the same gender. The Supreme Court held unanimously in another case, earlier in 1998, that same-

gender sexual harassment is also barred by Title VII. What matters is whether the conduct at issue is both sexual in nature and unwelcome.)

Assume A Strict Standard

To avoid inadvertent problems, an employer should assume that there is a single, nationwide, rather strict standard on what is acceptable conduct. "That would be the safest way to go," Kilberg says. "All you can be certain of is that there is a heightened sensitivity and an aggressive plaintiffs bar."

Media attention to high-profile sexual-harassment cases may also trigger more complaints from harassed employees, says Debra L. Shapiro, a professor of management at the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. "People who have been afraid to report might gain some courage" from seeing that others have reported, she says, "particularly when they see the size of some of the awards."

Sexual-harassment charges filed with the Equal Employment Opportunity Commission (EEOC) totaled nearly 16,000 in fiscal 1997, up from less than 7,000 in fiscal 1991. The filing of such charges with the EEOC is a necessary prelude to filing a lawsuit in federal court.

The unusual nature of some cases could pique the interest of potential plaintiffs. In one recent Virginia case, for example, a federal jury awarded \$300,000 in emotional-distress and punitive damages—the maximum for such damages

under federal law—to a male wrangler on a ranch who alleged that he had been sexually harassed by a female office manager with whom he had been intimate.

"It makes very good business sense" for companies to deal with sexual harassment forthrightly, Shapiro says, because the problem can be so costly—not simply in awards for damages and in the public embarrassment that can attend them, but in lost productivity on the job.

When people are mistreated, Shapiro says, "there's quite a consistent body of literature that shows that work performance declines, and as a result quality of performance, and attendance. All of that ultimately has to hurt the company."

New York City attorney Christensen says that complaints of sexual harassment may be symptoms of a much more widespread problem. She cites cases in which "the individual was charged with specific acts of sexual harassment, but when you investigated the general perception of this

The Cases Behind The Rules

The Supreme Court ruled on two sexual-harassment cases just before it adjourned last summer. Although neither case involved a small business—the defendant in one case was a city government, in the other a large company—the facts in both cases could easily be duplicated in companies with only a few dozen employees. Here are summaries of the cases:

Burlington Industries vs. Ellerth: Kimberly Ellerth, a former employee of Burlington Industries in Chicago, sued the company because of constant harassment she was subjected to from one of her supervisors, a sales manager. Among other things, the Supreme Court said in its opinion, he advised her to "loosen up" in the office and told her, "You know, Kim, I could make your life very hard or very easy at Burlington."

Ellerth chose not to report any of the manager's boorish behavior, and she eventually quit, citing other reasons for her departure. It was not until three weeks after her resignation that she sent Burlington a letter complaining of the harassment.

When she sued, Ellerth offered no evidence that she had lost a promotion or suffered any retaliation—what the Supreme Court called a "tangible job action"—for resisting the supervisor's advances. A federal district judge in Chicago threw out her suit. A federal appeals court reversed that judgment, and Burlington appealed to the Supreme Court, which agreed with the appeals court and sent Ellerth's suit back for trial.

Supreme Court Justice Anthony M. Kennedy wrote for the majority that even in the absence of a tangible job action, Burlington would be liable for the manager's behavior unless the company could prove that it had "exercised reasonable care" to prevent it and that Ellerth herself

had unreasonably failed "to take advantage of any preventive or corrective opportunities provided by the employer."

Faragher vs. Boca Raton: Beth Ann Faragher, a former lifeguard, sued the city of Boca Raton, Fla., because she had been subjected to lewd comments and grabbing by two beach supervisors. She won in federal District Court, but that judgment was reversed on appeal.

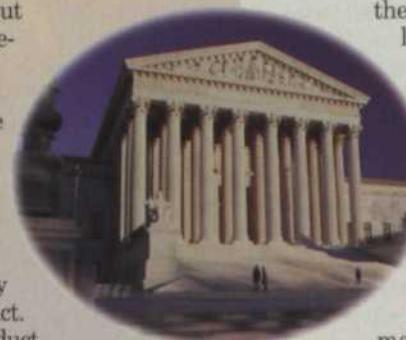
A federal appeals court agreed that the supervisors' conduct was sufficient "to create an objectively abusive work environment," but it declined to hold the city liable for their conduct.

The supervisors' conduct was a "frolic" unrelated to their work, the court said.

The Supreme Court reversed that ruling, saying that the city was liable for abuses of what it called "virtually unchecked authority" by the supervisors.

Although the city had a written policy against sexual harassment, it had never distributed that policy; the offending supervisors were unaware of it. Neither had the city tried to keep track of the supervisors' conduct.

Faragher was awarded only one dollar in damages in District Court. The city appealed, though, because "the recovery of even nominal damages entitled her to attorneys' fees," says Harry A. Rissetto, who represented Boca Raton in its appeal to the Supreme Court. The District Court awarded \$50,000 in attorneys' fees, and Rissetto says the total—not yet determined—will now be some multiple of that, thanks to the cost of the appeals.



individual throughout the workplace, you'd get a very negative response: that the person was a bully, was a yeller, would insult and humiliate employees, and was generally disliked."

Supervisors aren't the only source of charges of sexual harassment, of course. The Supreme Court's decisions left undisturbed the law as it applies to harassment of one co-worker by another. In such cases, the company isn't liable except when its negligence has permitted the harassment to occur.

The law recognizes, Christensen says, that "it's different when a co-worker does it and when a supervisor does it." What may be simply a lewd remark when a co-worker says it may carry a veiled threat when a supervisor says it.

Even though the negligence standard remains intact, the courts may now be more likely to find negligence when an



PHOTO: GENE HALL

"It makes very good business sense" to deal with sexual harassment forthrightly because such behavior damages productivity, says management professor Debra L. Shapiro.

employer doesn't have a written anti-harassment policy and a formal procedure for enforcement. As Rissetto says, "courts will be more ready to find, in a co-worker situation, that the employer should have known" the harassment was occurring.

"The Real Exposure"

Some pro-business attorneys warn that the Supreme Court's recent sexual-harassment decisions have created an unfounded sense of relief in the business community. Although verdicts in federal cases can lead to awards of hundreds of thousands of dollars for damages (on top of awards for economic damages and attorneys' costs),

Protecting Employees—And Your Business

As a practical matter, under the Supreme Court's most recent sexual-harassment rulings, companies of any size must have:

- A written policy outlawing all forms of sexual harassment.
- Sexual-harassment training for supervisors.
- A strategy for responding to sexual-harassment complaints.

Such requirements, says Baltimore attorney Ronald W. Taylor, are likely to "spill over" into other areas of employment-discrimination law, making it all the more imperative for small businesses to bring their harassment policies into line with recent court rulings.

On the positive side, drafting a sexual-harassment policy "is not like doing an income-tax return," New York City attorney Andrea S. Christensen says. "It's not particularly complex."

Washington, D.C., attorney Harry A. Rissetto believes that the courts will give companies "quite a bit of leeway in terms of the content" of a sexual-harassment policy. But "the policy has to be part of a program" to prevent sexual harassment at the company, Rissetto says, and the program has to embrace communicating the policy to employees.

"One of the suggestions that we have been making to our clients," Christensen says, "is that employers annually put out a policy on harassment, deliver it to every employee, either personally or by mail, and require that the employee return it, signed."

Clarity is important, says Debra L. Shapiro, a professor of management at the University of North Carolina at Chapel Hill, because if there's ambiguity in the written policy, "there's always the risk that someone will claim that it happened when it didn't; or, when it did, someone will claim that it didn't. There has to be a very clear understanding of what behavior constitutes sexual harassment."

In addition to defining prohibited behavior, lawyers specializing in the subject say that a written policy should:

- Make clear that the company won't tolerate misbehavior from anyone, including supervisors and customers.
- Encourage harassed employees to complain to their supervisor—or, if the supervisor is the harasser, to some other designated person.
- Assure employees of confidentiality—but only up to a point, Christensen says. "You almost have to say to the individual, 'I'm

going to investigate, and I'll do the best to maintain your confidentiality, but ultimately I may have to disclose your name.'"

- Assure employees that retaliation will not be tolerated.

Ensuring Proper Handling

Writing a policy and communicating it to your employees gets you only to first base. Once you have invited complaints, they must be handled properly.

"Before you get complaints," Taylor says, "think about who you want investigating them, and train those people." Such training, at a minimum, should make supervisors aware of the law's requirements. "You really only need one lawyer for a couple of hours, at most" to provide such training, Taylor says. "It's the kind of thing that ought to be done on a regular basis."

Washington attorney William J. Kilberg advocates more-extensive training. "I've been advising smaller employers to set aside some amount of money during the course of the year for whoever is playing the role of intake officer to attend some seminars, one or two a year," he says. "There are plenty of them around."

"Then," he adds, "you're able to put that person on the stand, if necessary, as support for the adequacy of both the intake procedure and the investigation. That person can say, 'Yes, I have received training. I know what I'm doing.'"

Shapiro says it's important for supervisors to respond to complaints "in a supportive fashion." They shouldn't dismiss or minimize complaints, she says, but "seek full understanding of why [the complainant] believes harassment has occurred."

She says a study she conducted found that a supportive supervisor, rather than a formal policy, generally determined whether someone who had been harassed would report it.

"If they believe that in the end they're going to be harmed for talking," Shapiro says of employees who have been harassed, "I don't care what the law says, they're not going to do it." An employee's refusal to go to a supervisor would thus be "reasonable"—the Supreme Court's test—and the company would be exposed to liability.

You must provide alternative channels for complaints. "Too frequently," Christensen says, "it is the immediate supervisor or the

COVER STORY

cases brought under state laws have resulted in multimillion-dollar awards for plaintiffs.

"The real exposure for employers is not under Title VII," says labor lawyer Copus. "These cases are a footnote. Even though they get all the attention, they're not where the action is. Any winning claim under Title VII will also, by definition, be a winning tort in any state in the country."

In such cases, liability may be imposed not for sexual harassment per se but for intentional infliction of emotional suffering, negligent supervision, invasion of privacy, assault, battery, or any number of other torts.

"Those torts are where the megabucks are going," Copus says, "and they're all state-court common-law claims."

Moreover, many states' laws addressed specifically to sexual harassment apply to companies with as few as one or two em-

ployees and impose no ceiling on damages. (By contrast, only companies with 15 or more employees are covered by Title VII.)

Procedures In Writing

After complaints are in hand, Taylor says, "it's going to be important to any employer's affirmative defense to show that they conducted prompt and thorough investigations, that they enforced their policy rigorously. If you have complaints that go uninvestigated and unremedied, an employee's reluctance to use the program is not going to be unreasonable."

The procedures you'll follow in investigating a complaint should be set out "in writing, as part of the policy," Rissetto says, "so that the employee has confidence that if he or she complains, the employer intends to do something about it."

The policy should impose obligations on the complaining employee, too. Kilberg says: "There should be a requirement that complaints be made as quickly as possible, and when the complaint comes in, either the complainant or the intake officer needs to reduce the complaint to a written form, so you know who made it, when it was made, all the facts that can be had, and the scope of it."

"You don't want somebody to reconstitute their complaint a month later and assert that it was much broader than it was."

Similarly, he says, if an employee doesn't want any action taken on the complaint, "the employee has to be told that that's unacceptable," that the employee has an obligation to provide the facts and the employer has an obligation to investigate.

Start by interviewing the complainant, Taylor advises; take notes and document what he or she says. Then interview the person who has been accused as well as witnesses who may have been offered by either side.

ployees and impose no ceiling on damages. (By contrast, only companies with 15 or more employees are covered by Title VII.)

Christensen argues that the threat is not severe, despite the "potentially much higher damages available under state laws." That is because, she says, "when you're talking about common-law torts—assault and battery and that kind of thing—you're talking about very serious misconduct. Most sexual harassment does not rise to that level."

In addition, she says, state courts tend to follow the Supreme Court's lead in its interpretation of Title VII. "Many states' statutes read very similarly to the federal statute," she says, "so that the interpretations by the federal courts do tend to have an impact on many state courts."

Whether a case is being heard in state court or federal court, many attorneys who represent management agree that having employment decisions come under review by a jury is, as Copus says, "a scary proposition." It is the powerful role of the subjective element—the emotional distress that harassment supposedly causes—combined with the jury trial that makes sexual-harassment cases so dangerous for employers.

There's evidence in the huge awards for damages under state law that juries can respond emotionally to claims of sexual harassment or other kinds of employment discrimination. Given the potential dangers of such lawsuits, Copus advises small firms: "Adopt the best policy—and pray."

To order a reprint of this story, see Page 43.
For a fax copy, see Page 48.



Distribute your sexual-harassment policy to employees annually, attorney Andrea S. Christensen advises.

What may be at issue is not what happened but what it meant. Nonetheless, where there's disagreement on the facts, he says, "you're going to have to make a credibility determination: Whose story do you believe? Does this person's story make sense, or is it just unbelievable?"

Making A Response

Whatever the ultimate resolution, Taylor says, "you need to go back to the accuser and convey generally that something happened," that some concrete step was taken, as a result of the complaint.

The consequences as well as the definition of sexual harassment should be spelled out clearly, Shapiro says, "otherwise the policy will be seen as merely symbolic and ineffective."

Taylor advises, though, that you not lock yourself into certain kinds of punishment. You may want to say that harassment is a major offense that would support discharge, but you don't want to make discharge automatic.

There is, after all, the possibility that an unjustly accused harasser could wind up taking you to court. "You've got two potential plaintiffs," Kilberg says, "the person who's making the allegation and the person against whom the allegation is being made."

Washington attorney David A. Copus recommends that employees be required to accept mandatory arbitration of sexual-harassment cases as a condition of employment—they would be barred from taking harassment claims to court—with a limit on damages like that in the federal civil-rights law. (To learn more about arbitration and other forms of alternative dispute resolution, see "A Working Alternative For Settling Disputes," July.)

By limiting liability in that way, Copus says, "you eliminate the risk of an enterprise-threatening damage claim"—and you dampen the enthusiasm of plaintiffs' attorneys for taking such a case.

Small Business Financial Adviser

Proceeding cautiously to make sure your money is managed cautiously, investing that matches your social conscience.

How To Pick A Manager For Your Money

By Randy Myers

Selecting an expert to advise you on your finances is a bit like buying a house. You should worry less about what's on the outside—a pretty coat of paint or a real-estate agent's clever

pany making an initial public offering of stock. When the stock's price skyrocketed in the first few days of trading, Quigley quickly earned several thousand dollars. Filled with enthusiasm, he bought into another IPO. This time, he lost about \$18,000.

When yet another broker called pitch-

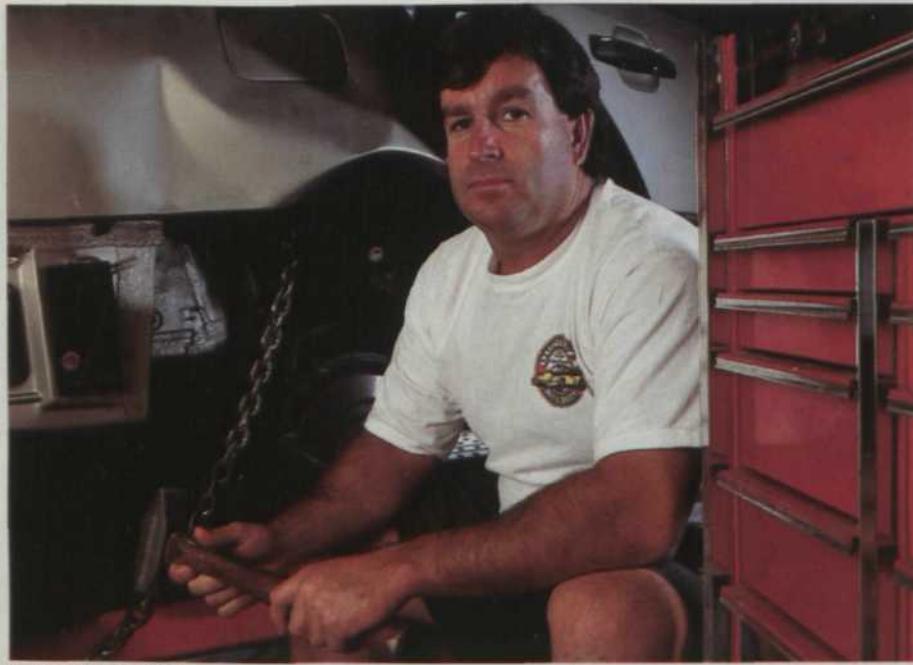


PHOTO: ©BART BARTHOLDMEYER

Feeling financially dented after dealing by telephone with stockbrokers he hardly knew, auto-body-shop owner Glenn Quigley of Lake Forest, Calif., says he might never again use brokers.

spiel—and more about what's on the inside—such as a solid structure and the agent's integrity.

Just ask Glenn Quigley.

Quigley is owner of Quigley's Auto Body in Lake Forest, Calif. Intrigued by the possibility of making money in the stock market last year, Quigley began buying stocks from brokers who had called him, out of the blue, on the telephone. While he had never met these brokers and knew virtually nothing about them, he was seduced by their sales pitches.

Not much happened until one of the brokers sold him shares of an IPO—a com-

ing another IPO, Quigley balked—then relented after the broker promised he wouldn't let him lose more than \$200. By late September, Quigley was holding paper losses of several thousand dollars on that trade, too, and was having trouble getting the broker on the phone.

"I'm not even sure I would use a broker again," Quigley says now. "I might trade online. And if I did use a broker, I would probably go with one of the big-name companies, somebody reputable." Kicking himself a little more, Quigley adds, "My dad does very well with stocks; maybe I should have used his broker."

As reasonable as it sounds to choose a financial adviser recommended by a friend or relative or one who's connected with a big-name firm, it's no assurance that you'll be happy with your decision, experts say.

Even brokers who work for big-name firms sometimes give bad advice or mishandle accounts in ways that can cost you dearly. And just because a broker did a good job finding stocks for your brother-in-law doesn't mean he'll be able to help you, especially if you and your brother-in-law have radically different investment goals and appetites for risk.

"Your friends and family are a reasonably good starting point for referrals, but you probably know more about their sex life than their financial life," cautions Charles A. Jaffe, a financial journalist and author of *The Right Way to Hire Financial Help* (MIT Press, \$25). "As a result, you can't make a good judgment, on face value, as to whether their adviser would be right for you."

Financial planners agree. "A couple of times in the past, we have taken clients that have had objectives we didn't feel were compatible with our style, and it's always turned out to be a mistake for them and for us," says Frederick Raffety, a certified financial planner with Robert Lawrenz Consulting in Rockford, Ill.

If you own your own business, choosing financial advisers is especially critical because your financial life, both personally and professionally, is likely to be complex. In fact, you may need a team of advisers—a financial planner, a certified public accountant, an insurance agent, a banker, and perhaps a tax attorney and a stockbroker.

Choose properly, and this team can help you manage your money for a lifetime. Choose poorly, and you may find yourself going through the selection process over and over again.

Ranking The Priorities

What should you look for in an adviser? Experts universally agree that the most important quality is trustworthiness. Sure, you'll also want somebody with experience

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Age	10 YEAR	15 YEAR	20 YEAR	25 YEAR	30 YEAR
35	\$ 138	\$ 163	\$ 198	\$ 280	\$ 300
40	\$ 185	\$ 210	\$ 260	\$ 385	\$ 383
45	\$ 260	\$ 335	\$ 395	\$ 548	\$ 585
50	\$ 378	\$ 500	\$ 600	\$ 863	\$ 915
55	\$ 568	\$ 758	\$ 865	\$ 1,805	\$ 2,810
60	\$ 908	\$ 1,130	\$ 1,365	\$ 4,100	\$ 4,100
65	\$1,530	\$ 1,845	\$ 2,923	\$ 5,270	\$ 5,270
70	\$2,665	\$ 3,539	\$ 5,405	\$ 7,370	\$10,070
75	\$4,415	\$ 7,848	\$ 9,650	\$13,640	\$13,640

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Final premiums and coverage availability will vary depending upon age, sex, state availability, hazardous activities, personal and family health history. The male, non-smoker use premiums shown above may include: Banner Life Ins. Co., Rockville, MD, form RT-97; First Penn-Pacific Life, Hoffman Estates, IL, form BT-1002AA(2-96); Control #B98-198(3/98); Golden Rule Ins. Co., Indianapolis, IN, form GRI-L-171; Old Republic Life Ins. Co., Chicago, IL, form 8-1077; Protective Life Ins. Co., Birmingham, AL, form GP-06; Security-Connecticut Life, Avon, CT, form 11420; West Coast Life, San Francisco, CA, form #971137400. Rates shown are not applicable to residents of FL, NJ & NY. Policy forms vary by state. \$500 lowest price guarantee not available in SD. CA #0827712. Some premiums shown are graded premium life policies and/or term-like universal life policies. Premium rates always escalate after initial rate guarantee period.

and good credentials, solid organizational skills, and the ability to communicate. But if you can't trust that person with your money, the other qualities are moot.

"Go with your gut," says Mary Calhoun, president of Calhoun Consulting Group, a Waltham, Mass., firm that acts as a consultant and expert witness in securities arbitration and litigation cases. "Don't invest your money with anyone you don't feel absolutely confident about."

The big question, of course, is how to reach that level of confidence with someone you're asking to help you with arcane financial matters you may not fully understand.

If you don't know anything about asset allocation, tax planning, or life-insurance trusts, for example, it can be hard to know if the broker, accountant, or insurance agent you're talking to knows what they're doing—or even if they will act in your best interest.

Here's a simple solution: Don't hire any adviser who can't explain things to you in a way that you understand—and understand well enough to explain to somebody else. If that means you need an adviser who will take two hours to explain a particular investing concept or strategy, find one who will do it.

And if the adviser charges for that time, don't complain.

"It's incredible to think that people who wouldn't hesitate to pay a mechanic to help them with their car can't stomach the thought of paying somebody to help them with their money, which is a much more important asset," says Jaffe.

Money And Credentials

For Dave and Charlie Miller, fees are not foremost in deciding on an adviser. The brothers have been partners in Miller Bros. Vacuum Cleaner Hospital in York, Pa., for 28 years and have long relied on outside financial advisers. In choosing those advisers, they have made caution, not costs, their watchword.

"One of the first things we do is look for someone who's easy to understand, because there's so much jargon and double talk in this area," says Charlie. "We also like to use companies that have been around for a while and are well-known."

Adds Dave: "Cost is not really an issue for us, as long as they do a good job."

Experts say the Miller brothers' decision to make fees a secondary consideration is on target. They add that if you are going to look at costs, you shouldn't get hung up on whether an adviser is compensated through commissions or flat fees. Both methods have their merits and pitfalls. But do understand how the adviser is getting paid, and be wary of anybody who is



PHOTO: ISAL DIMARCO JR.—BLACK STAR

To sweep away the jargon in financial advice, "look for someone who's easy to understand," says Charlie Miller, co-owner of a vacuum-cleaner firm in York, Pa.

reluctant to share that information.

Choosing between advisers who work for big firms and those at small ones can be a struggle. Says Jaffe: "Usually you're going to get more attention with the small firm, while the big firm may be able to do more for you. Only you can decide if you need the extra capabilities."

Jaffe recommends that you interview prospective advisers much as you would job applicants, checking into their professional and educational background.

Adds Calhoun: "Make sure your adviser has the professional credentials that are demanded in their field. And once your adviser tells you what they are, follow up. Call the organization that awards those credentials and verify that the person has them."

In some instances, he says, advisers lose credentials through failure to meet continuing-education requirements or simply neglect to obtain them in the first place.

Among the most popular and respected accreditations are certified financial planner (CFP), certified public accountant (CPA), chartered life underwriter (CLU) in the insurance industry, and chartered financial consultant (ChFC). There are many others available, including some

that can be gained with far less rigorous study and work experience than those just mentioned.

Keep in mind that credentials are only base requirements, not confirmation of a financial adviser's ability. "Some of these credentials may ensure that you're technically proficient, but they don't mean you have the people skills needed to be a good adviser," Jaffe explains. "And some are truly worthless."

Although Calhoun says you can sometimes justify hiring a financial adviser who has no professional credentials, she has seen a sufficient number of victims to make her wary. She says she would insist that a financial planner have either the CFP or CPA designation.

Measuring The Minuses

Just as you look for positive signs during the interview process, look for potential negatives, too. Jaffe suggests ruling out anybody who pressures you into making a quick decision.

He also shuns financial planners who, when asked to show their Form ADV—an adviser registration form—show only the second page. The first page includes any disciplinary actions

taken against the adviser, and it's not required by law to be shown to anyone asking to see the registration form.

Calhoun suggests verifying an adviser's background independently. For example, you can get a financial planner's Form ADV through state securities offices. You can call the National Association of Securities Dealers' toll-free Public Disclosure Hotline at 1-800-289-9999 to learn of any criminal charges or consumer-initiated complaints against a broker. That information is also available through the NASD's World Wide Web site, at www.nasd.com.

Although grilling prospective financial advisers might sound daunting, the reward is worth the effort. And if you find yourself confused by an overload of information, step back and remember what's most important.

"It's trust and confidence," Jaffe reiterates. "And don't forget the three most important words that you need to remember: It's my money."

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

SOCIAL INVESTING

Mutual Funds That Match Your Beliefs

By Frances Cerra Whittlesey

If you were asked to name just one company in which your mutual funds are invested, could you do it? Do you know if your funds are invested in corporations whose behavior or products go against your own religious, moral, or social beliefs?

If you can't and don't, you have plenty of company. A nationwide survey of 800 mutual-fund investors by Yankelovich Partners, a market-research firm based in Norwalk, Conn., found that 66 percent of them could not name a single company in which their mutual funds were invested. However, when the survey asked the randomly chosen investors whether they would be more likely to choose a particular fund if they knew it had no holdings in tobacco companies—an industry that was singled out in the survey—59 percent said yes.

The survey is irrelevant, of course, to pure market capitalists who believe that the only thing that matters is the bottom line. But to those who believe in a kind of capitalism that considers its impact beyond the balance sheet, the survey reveals a huge potential to woo new investors.

A fast-growing number of what are known as socially conscious or socially responsible mutual funds are offering U.S. investors the option of putting their money behind their beliefs. Instead of choosing from the entire universe of publicly traded corporations when making investment decisions, managers of these funds set up ethical, moral, environmental, and social-justice criteria and "screen" companies based on those factors before making their selections.

A Small But Growing Presence

Only about one-tenth of 1 percent of the money invested by individuals in mutual funds is held in social funds, according to Amy L. Domini, one of the founders of the most widely used benchmark of socially screened companies, the Domini Social Index, which tracks the stocks of 400 companies regarded as socially responsible. But the number of socially conscious mutual funds grew from 55 in 1995 to 144 in 1997, according to a 1997 report by the Social Investment Forum, a Washington, D.C.-based nonprofit association of organizations involved in social investing.

Many of these start-up funds are small, entrepreneurial ventures begun by individuals who have a personal interest in promoting a particular agenda. Others are being added by large financial-services

companies such as Fidelity Investments in Boston and Salomon Smith Barney Inc. and Merrill Lynch & Co., Inc., both in New York City, in response to customer demand for a social-fund choice on the menu of individually directed retirement plans.

"As long as we keep delivering competitive performance, demand will keep grow-

ing," says Elizabeth Laurienzo, public-relations manager for the Calvert Group, a mutual-fund company in Bethesda, Md., that sponsored the November 1996 Yankelovich survey. "People who are active in their children's schools, active in their communities, who care about the world make the connection between their personal values and their investments."

Some investors who have never looked at their funds' holdings may be unhappy to



"I expect social investing to go mainstream" in coming years, says Amy L. Domini, co-founder of a widely used benchmark of socially screened companies, the Domini Social Index.

ing," says Elizabeth Laurienzo, public-relations manager for the Calvert Group, a mutual-fund company in Bethesda, Md., that sponsored the November 1996 Yankelovich survey. "People who are active in their children's schools, active in their communities, who care about the world make the connection between their personal values and their investments."

Taking The Pulse Of Investors

The purpose of the Yankelovich survey was to measure investor concern about funds that have tobacco-company holdings and to determine the potential market for social funds in general. One-third of the respondents said they might switch their money out of funds that have investments in tobacco companies. More than two-thirds of those who did not have a socially responsible option among their retirement-plan fund choices said they would like one.

Information about the stock holdings of mutual funds is regularly mailed to participants. Nonetheless, says investment ex-

find, for example, the names of nuclear-power companies, weapons manufacturers, gambling concerns, and alcoholic-beverage companies.

Investors in social funds such as Calvert, Dreyfus Third Century, Parnassus, and the Domini Social Equity Fund, which are among the largest, can be sure they are not supporting such enterprises. The prospectuses of these funds name the types of corporations that are excluded and disclose that the funds seek to invest in companies with good environmental and employee practices and records of community involvement.

The funds use their clout to advance their social objectives with proxy votes, shareholder resolutions, and dialogue with the investor-relations staff at corporations. Many small social funds have very narrow agendas. Whether you would be willing to invest or not depends on your point of view.

"I am Planned Parenthood's worst nightmare," says Art Ally, president of The Timothy Plan, a mutual-fund company

SMALL BUSINESS FINANCIAL ADVISER

that plays gospel music to callers on hold. With assets of \$27 million, Timothy does not invest in companies that Ally believes are "funding the downfall of America." That rules out companies that contribute to Planned Parenthood, he says, or support abortion rights or "active promotion of the homosexual agenda."

Ally says that he works with research organizations that identify corporate contributors to Planned Parenthood and that he "continuously communicates" with these contributors to try to persuade them to withdraw their support. His success has been mixed, he says.

A Narrower Focus

The Meyers Pride Value Fund, in contrast, invests only in companies that have explicitly stated anti-discrimination policies for gay and lesbian employees. If a company doesn't have protective policies for homosexuals, says Shelly Meyers, founder and CEO of the two-year-old, \$3.2 million fund, "we have constructive dialogues with them about creating them."

Other narrowly focused social funds screen in favor of companies that have women or African Americans in upper management, for example, or that are connected with religious denominations. Many such funds do no marketing and are not offered by brokerage firms or investment advisers because they are not front-loaded. Front-loaded funds charge an initial fee to pay sales personnel.

Social investing proved its potency in South Africa when anti-apartheid activists pressured U.S. companies that had investments in South Africa to divest themselves of those holdings. Bishop Desmond Tutu and South African President Nelson Mandela have credited the divestiture

movement with helping to bring about the negotiations that ended apartheid.

A Performance Penalty?

Skeptics of social funds, such as Michael Devaney, a professor of accounting and finance at Southeast Missouri State University, criticize many of the socially conscious funds' objectives as vague, and they suggest that investors pay a penalty for their good intentions in the form of reduced returns.

"If social investing is to be more than an exercise in self-righteous posturing, money managers should attempt to provide investors objective evidence on 'social benefits' as well as their 'opportunity cost,'" Devaney wrote in a September 1997 article in the journal *Pensions & Investments*. "Some might contend that those who justify substandard private returns on the basis of unsubstantiated social benefit are perpetuating a ruse on their clients."

It was the question of whether social investors must settle for lower returns, says Domini, that led to creation of the Domini Social Index. The index—which she devised with her partners, Peter Kinder and Steven Lydenberg—gained 208 percent since its inception in June 1991 through the third quarter of this year. During the same period, the Standard & Poor's 500-

stock index was up 186 percent and the Dow Jones industrial average rose 191 percent.

The Domini index screened out 150 of the 500 S&P stocks for reasons such as involvement in military work or nuclear power, employee policies, and environmental practices. The index then added 50 stocks that are not part of the S&P 500 based on what the three partners viewed as positive factors, among them product quality and inclusion of women and minorities on boards of directors.

Domini—based in Boston—and her partners then created the Domini Social Equity Fund to invest in the 400 stocks in the index. The fund, which is marketed from New York City, has a five-star rating from Morningstar, Inc., the highest performance rating accorded by the Chicago investment-information company.

Laura Lallo, a senior analyst at Morningstar, says social funds "run the gamut from four and five stars to one- and two-star weak performers. The Domini and the Citizens Index"—a mutual fund that invests in 300 companies deemed socially responsible and that also is five-star rated—"have gone a long way toward proving that screens don't hinder performance."

Former Wall Street portfolio manager John Guerard Jr. said in a 1996 article in *The Journal of Investing* that his analysis showed that rates of return for screened and unscreened funds did "not differ significantly." He concluded that the way "a manager implements the investment process" is what impacts returns, not social screening.

Exploring Social-Investment Funds

Sources of information about mutual funds that screen companies they invest in for certain socially responsible characteristics can be found most readily on the Internet. A good place to start is the site of the Social Investment Forum, at www.socialinvest.org. It offers lists of social funds plus background information and links to their World Wide Web sites, where you can learn more about the companies' social agendas. You can call the Social Investment Forum at (202) 872-5319.

Many social funds are not front-loaded (no fee is charged when you buy in), so they are not offered by brokers or financial advisers. This means you will have to

contact the funds directly to make an investment.

If you already own mutual funds or your company has a pension plan with a menu of mutual-fund choices, ask your broker if a social fund is available. If not, let the broker and his or her bosses know that you would like such a choice.

Bear in mind that social funds vary in their returns on investment just as non-screened mutual funds do, so they should be evaluated in the same manner. However, if you share the agenda of a narrowly focused fund, you may decide to accept lower monetary returns as the price of following your conscience.



Frances Cerra Whittelsey is a free-lance writer in Huntington Bay, N.Y.

MANAGING

Develop Workers—And Your Business

By Michael Barrier

A fast-food franchisee was having trouble getting his young employees to arrive at work on time. The franchisee knew that the work schedule was important to the employees—many of whom were in school. However, the schedule was set by the assistant manager, and the employees had to fit themselves to it. If there was a conflict between work and a class, that was the employee's problem to solve.

The solution: Align the employer's needs with the employees' needs. The employees with the best attendance records got the first choice of times to work. The attendance problem evaporated.

Bob Nelson, the San Diego-based author (*1001 Ways to Energize Employees*, Workman Publishing, \$10.95) and consultant who came up with that solution, suggests that the employees who were showing up on time were bringing changed attitudes with them as well. "As you give people more sense of control," he says, "you get more commitment and involvement."

Employers need to think about "employee development" in terms of such initiatives, Nelson believes, with formal training only a small part of the mix. "Ninety percent of all development occurs on the job," he says.

It may be tempting to think about employee development mainly in connection with jobs that require specialized skills or advanced degrees. But for all the talk about such "intellectual capital," says Wayne Outlaw, a consultant in Mount Pleasant, S.C., "a lot of people aren't in intellectual-capital businesses."

Outlaw, the author of *Smart Staffing* (Upstart Publishing, \$19.95), points out that almost all employers do need *human capital*—specifically, they need people who are willing to work. In modern farming, for instance, money in the bank and up-to-date equipment are of little value, he says, "until you put somebody in that equipment to till the soil."

What employers should try to develop in their employees, he says, is "the ability to think and solve problems"—a skill that can be cultivated like any other.

The message from Outlaw and other peo-

ple who deal with such questions is that employees can bring to jobs of any kind an enthusiasm and creativity that make the work increasingly satisfying to the employee—and that make the employee increasingly valuable to the employer.

It may be easier for

small companies "to support and facilitate creativity," says Teresa M. Amabile, senior associate dean for research at Harvard Business School. "Large corporations seem to be much better breeding grounds for creativity-killers."

At a large company, she says, there's a greater risk that someone will feel that their work is unimportant and unappreciated or that they are being overwhelmed by bureaucracy. "It's much more likely, in a small company," she says, "that an individual will feel that other people know what they're doing and care about it."

Amabile agrees with Nelson that, as she says, "most skill development happens through the assignments that people

get." Here again small firms have an advantage. "It's always difficult to match people well to the work," she says, "but it's much more likely in a small company that you'll be able to really know what people's skills are, what their capabilities are, and what their interests are."

Paying attention to employee development—and the job satisfaction that comes with it—is particularly important to small companies in the current job market.

Even with a slowing economy, it's unlikely that small companies will soon have their pick of sparkling prospects. Retaining good employees is vital in such an environment, but losing strong performers is always costly.

"The impact is tremendous if an employee walks out," Outlaw says. "People talk about the impact of turnover in large corporations, but what if your business has four employees and one leaves you? Who's going to do the work?"

Rob Duboff, a vice president of Mercer Management Consulting in Lexington, Mass., says: "The math [justifying employee-retention efforts] isn't that hard. It's just a matter of thinking the costs through."

Besides the obvious costs involved in hiring and training new people—even when the training is on the job—"in some businesses you have the cost of customer relationships that are rent asunder," as with a bank that loses a loan officer whose customers may feel cast adrift, says Duboff.

Service industries such as banking are particularly vulnerable to disruptive effects on customer relationships. In such industries, Duboff says, "there has to be a match between your employees and the customer," a match that gets harder to achieve as turnover increases.

"The cost of keeping people—even if you have to spend money to train them, and to make them feel better about what they're doing—is minor" compared with the cost of replacing them, Duboff says.

Employers may fear that if they help their employees develop new or improved skills, those employees will leave them for



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Amabile agrees with Nelson that, as she says, "most skill development happens through the assignments that people

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higher-paying jobs. Nelson believes the contrary is true: "The more you give them in their current job, the more likely they are to want to stay, because they come to realize they're in a special place, with management looking out for them. They'll think twice about leaving, even for more money."

At DY-NA Tool & Mold, a nine-employee tool-and-die shop in Kearney, Neb., co-owners Darren Yendra and Randy Damratowski make a point of hiring recent graduates of technical schools with little or no work experience and providing them with intensive on-the-job training. In addition to the internal training, Damratowski says, when DY-NA gets a new piece of equipment, "we send a couple of guys to school on that."

Despite the many opportunities available to skilled workers like those at DY-NA, he says, "the people that we're training are staying."

If employees are developing in the job, Nelson says, "it gives them a sense that they're going somewhere in their career, even if they're not getting a promotion. If you're growing and learning new things, that meets a lot of different needs."

How should a small employer who wants employees to grow in their jobs—to everyone's benefit—go about encouraging such growth? Here are some suggestions:

Start with hiring.

"Hire attitudes, values, and capabilities," Outlaw advises, "especially in entry-level positions, the ones that don't require specialized expertise. You can't find someone who's not honest and teach them honesty. Too often, people try to hire knowledge and they try to hire skills. In reality, the way business is changing, you can give someone the knowledge and skills if they have the right attitudes, values, and capabilities."

Employers should resist the temptation to hire quickly in a tight labor market, he says. "Some people get to the point that they're hiring warm bodies. If you can fog a mirror, you're hired." It doesn't work, he warns—you'll have a problem from the start, and you'll have to go through the hiring process again, and soon.

"The quality of the person you hire determines the degree of difficulty of training, managing, and retaining," Outlaw says. "If you make a bad hiring decision, not a lot good is going to happen after that."

Exploit your small size.

"In most small businesses," Nelson points out, "you're trying to do more with

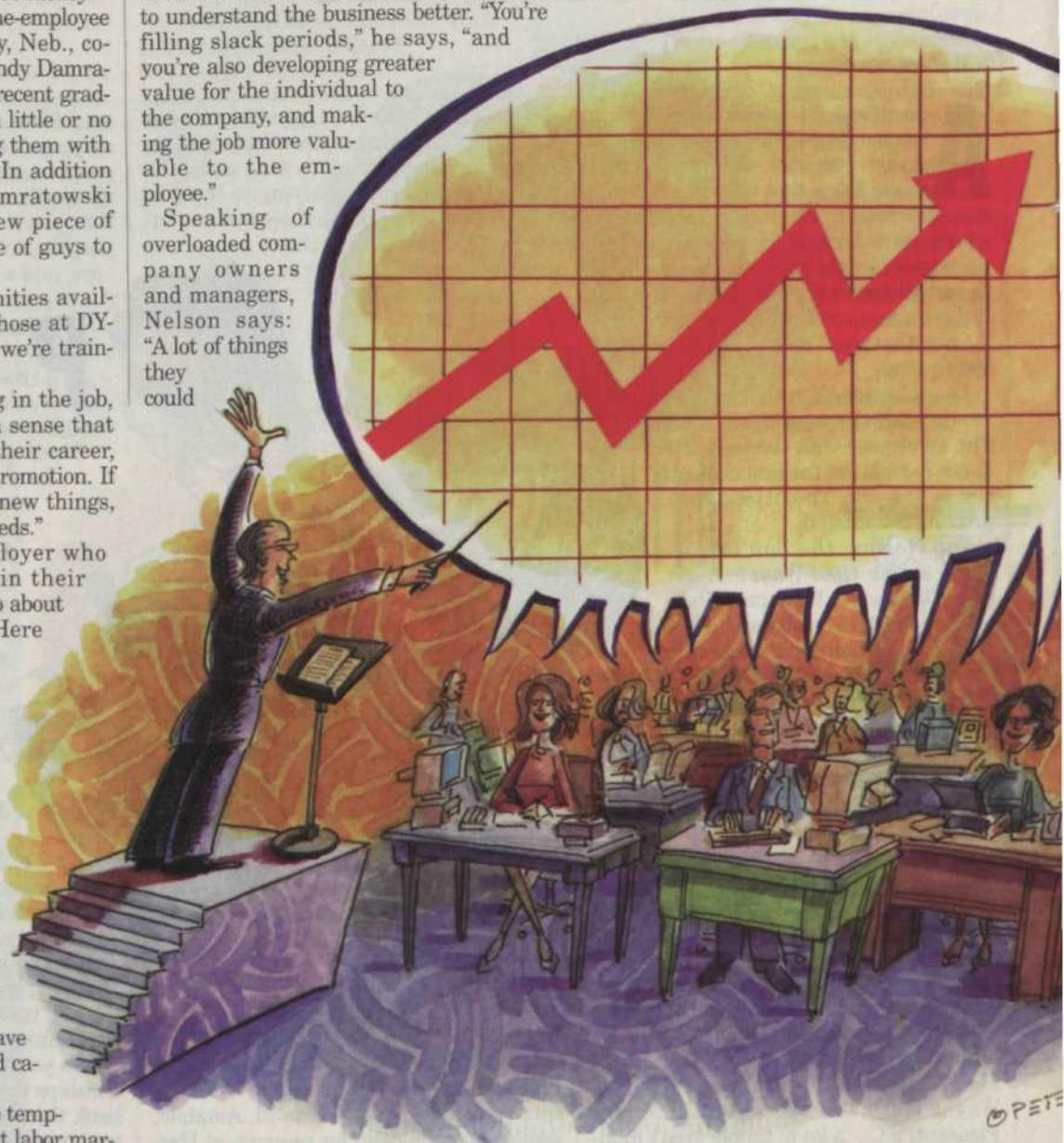
less. There are a lot of opportunities for people to wear different hats."

By giving employees the chance to work in other areas—with "structured on-the-job training"—when their own workload slows down, Outlaw says, you not only alleviate boredom but also allow employees to understand the business better. "You're filling slack periods," he says, "and you're also developing greater value for the individual to the company, and making the job more valuable to the employee."

Speaking of overloaded company owners and managers, Nelson says: "A lot of things they could

son says, "you need to find out what hats they're interested in wearing."

At DY-NA Tool & Mold, "you might have a guy who likes to do lathe work better than he likes to do mill work," says Damratowski. "He's better at it, he's more efficient at it,"



take off their plates and delegate to someone else, in the context of a development opportunity. You wind up getting someone else to do it, in an excited way. Then you've got time to do only those things that only you can do."

There's a potential downside to such multitasking, though. As Duboff points out, the lack of specialization inevitably means that "you don't have people always doing their best." Wearing many hats may be stimulating for many people, he says, but for others, the ideal may be "to do one thing well and really focus on it." As Nel-

so we're going to try to save that guy for that kind of work."

He and Yendra encourage employees to let them know what they prefer to do, he says, "because that makes them happier with what they're doing. It helps everybody," even though there will be many times when the work flow means that they will have to do something that would not be their first choice.

"It's a matter of understanding the individual, which you can do when you're small," Duboff says. In other words, if you consider your employees' needs as well as

your firm's needs, you may very well have an easier time satisfying both.

Ask your employees what they want.

If your employees are going to grow in their jobs—and your company is going to benefit from that growth—you must "take an interest in people and find out where they want to go in their careers," Nelson says. "The companies that get the best out of their employees are the ones that treat people as if they were in a partnership, instead of saying 'Here's a job that needs to be done. Do it.'"

Although every job unavoidably contains a certain amount of routine work, he says, "everyone has to have something in their job that sparks their interest"—what Amabile calls "intrinsic motivation."

The problem in small companies, Outlaw says, is that "people get so busy. They talk about tasks, they talk about problems, but they never talk about the larger issues, or how things are going, or how the employee feels." The only way you're going to keep valuable employees, he says, is "if they feel that they're meeting their objectives, and the owners cannot help them meet their objectives unless they know what they are."

Quill Co., a 100-employee manufacturer of promotional products in Cranston, R.I., has made a determined effort, through a quality-management program, to open up the lines of communication. But it has been hard, says Michael Woody, vice president of sales and marketing, because Quill, like so many other companies, has been locked into old ways of doing things.

"People will come in with valuable input for me," he says, "and I'm so mired in the day-to-day fires that I'm trying to put out that instead of clearing my mind and listening, I'm shuffling paper."

If a small company's typically harried atmosphere works against asking employees about their personal goals, small size can make it easier for employers to learn about those goals once they decide to make the effort. As Amabile says, "Just because there are fewer levels, anyone working there should feel closer to the top. They can have meaningful interaction with the people who are running the company."

Outlaw recommends an "executive interview," which he defines as an informal visit between the employee and someone a level or two higher—preferably someone just above the employee's supervisor, if the company is big enough to have that many

layers. "That way," he says, "you can get a little bit more objective viewpoint."

Such an interview is not a performance appraisal, he says. Rather, it should be more like career counseling, to learn "what you need to do to help that person reach their potential and stay with you. That's probably the most valuable 30 minutes the owner of a company can spend."

As opportunities arise, Nelson suggests, offer choices to employees—a choice of assignments, or a choice of which conference to attend. Instead of automatically attending a trade association conference, for instance, an employee might prefer a conference on a related subject.

Tie such choices to the employee's job performance—the better the performance, the more choices. "If you're aligning the development opportunities with the performance," Nelson says, "you will get more of that type of performance."

Tell them what you want, too.

Besides seeking employees' ideas, the firm's leaders must develop their own strategic vision and communicate it to the employees, Amabile says. "Without that sense of vision and overall strategic direction, people don't feel as invested in what they're doing."

If the CEOs of large companies could talk to every employee, "I think that retention would be much higher," Duboff says. But at large companies, "only a very few get to spend any time with [the CEO], so only a very few have any real sense of where the business is going, how they might fit in, where the opportunities are—which tend to be the big issues in retention."

At a small company, on the other hand, he says, a thoughtful owner or top manager is able to "give some of their personal time to explaining to the people in the organization, no matter how high or low, what the dream or the vision is and how they fit in."

The time a small company's employees spend with the owner can have a powerful effect, Duboff says. "Make sure your internal communication is good and effective. Face to face is best, if you can do it. You have to be conscious of how your company is changing and then have the communication mode that's effective for the current size and layout."

When communication is effective and employees and company are more fully

aware of each other's needs, the results can be dramatic. Woody cites a "spontaneous" effort by Quill's customer-service team and production department that has led to much more rapid responses to customer requests.

"We virtually ship orders when the customers want them," he says. "In most instances, the customer sets the delivery time." Managers in general, and upper management in particular, "had very little to do" with that initiative, he says.

Consider training—for yourself.

Loyalty to a company has two dimensions, Duboff says—one that encompasses salary and benefits and another that is emotional. Small businesses are much better positioned to command loyalty of the latter kind, he says.

For many small-business people, though, doing what it takes to earn emotional loyalty—such as communicating with employees and asking them about their goals—may not come naturally. "There are different kinds of entrepreneurs," Duboff says, "but generally, none of them get into business thinking, 'I'm going to create a warm environment for employees.' They're either doing it to get rich or they have an idea. The people are secondary."

Such business owners might be well-advised to invest in training not for their employees but for themselves. "The right kind of leadership training can be extremely useful," Amabile says. "Those are behaviors that can change," she says of autocratic entrepreneurial behavior. "You can modify your own style to some extent."

Woody advises that "if you only have so much to spend, start with the minds of the leaders. That's usually where most of the problem is, in terms of generating new ideas."

Let's face it, though—some business owners are just never going to be any good at cultivating an awareness of the individual differences among their employees. They can't help regarding their employees as interchangeable parts.

If you're one of those people, and you can't encourage your employees' development yourself, Duboff says, "as one of your early hires, make sure you find somebody who's good at that, cares about it, and is going to do it."

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Making Your Mark In Movies And TV

By Dale D. Buss

When "You've Got Mail," a Warner Bros. film starring Tom Hanks and Meg Ryan, is released for the holiday movie season, online-services company America Online, Inc., will get what amounts to marquee billing. The stars play rival bookstore owners who fall in love via electronic mail, and AOL's sign-on screen is practically a member of the cast.

While marketing gambits such as that are almost routine for major companies, you don't have to be big to score big in the business of product placement—getting a company's name or products into the plot or onto the set of a movie or a TV show. Increasingly, small firms are learning how to share the screen with some of the world's biggest stars.

Consider:

In last summer's blockbuster movie "Deep Impact," Tea Leoni's character is a television reporter who's warning of impending doom as an asteroid hurtles toward Earth. While she talks on the phone with her estranged father about the end of the world, she sips Avalon spring water, bottled and marketed by Avalon Beverage Co. in Glen Allen, Va.

In another recent film, "Conspiracy Theory," Mel Gibson plays a government-brainwashed assassin who persuades Julia Roberts, playing a lawyer, to visit his apartment, where Magnetic Poetry, a Minneapolis word-kit company, takes a bow.

The firm's magnetized, Scrabble-style word strips are spaced randomly on the door of Gibson's refrigerator. Later, arranged on a metal counter, they form a sentence: "I love the delicate shadow of she wanting me to be." As Roberts furrows her brow, the camera lingers on the words.

And in the film "The Horse Whisperer," EquiSearch.com—a Londonderry, N.H., firm that serves horse fanciers—gets about 30 seconds of "face time" when Kristin Scott Thomas' character resorts to the firm's Internet-based information service to help her daughter—and their horse—recover from the trauma of an accident.

The World Wide Web site for all things equine brings up an article about the training technique used by Robert Redford's character, and the information becomes the key to everyone's living happily ever after.

How did Avalon Beverage, Magnetic Po-

etry, and EquiSearch.com get their wares before the eyes of tens of millions of viewers? These weren't accidental cameo appearances; they were the hard-won fruits of efforts by those small companies or by their agents. And the results of such placements can pay off.

A prime placement can fortify big brands. Fans of NBC-TV's phenomenally successful "Seinfeld" may be buying Junior Mints for years to come because the product, now a brand of Tootsie Roll Industries Inc., was the centerpiece of one of the show's most popular episodes.

Or a placement can catapult an obscure company to fame. Sales of Red Stripe beer, once a low-profile Jamaican brew, shot up more than 50 percent in the three months after Tom Cruise prominently sipped it during a Cayman Islands scene with Gene Hackman in "The Firm."

"You can't get any more powerful exposure—except maybe word from a friend who swears by a product," says Robert J. Thomas, a marketing professor at Georgetown University in Washington, D.C.

Product placement used to be the sole preserve of hefty-budget megabrands. And like the fictional advertisers who completely financed production of the program in the movie "The Truman Show," many big companies are willing to pay handsomely for the privilege of making "starring" appearances in flicks and sitcoms.

But below the deals at the top there's a lot of room for placements, and that's the game that increasingly is being played by small companies trying to find low-cost but effective ways to make a mark on a national level. Don't forget that "Seinfeld" also brought stardom to small businesses such as H&H Bagels and Tom's Restaurant.

"More and more small-business owners are catching on to the possibilities and are calling us," says Bettina O'Mara, a consultant in West Los Angeles who was the gateway to placements in "Seinfeld" and who remains the conduit for all productions by DreamWorks SKG and Castle Rock Entertainment, both in Los Angeles.

Follow The Candy

Sixteen years ago, Robert Kovoloff helped launch the placement industry when he arranged for lovable alien "E.T." to gobble



PHOTO: RICHARD HOWARD

Getting his firm's spring water sipped in films and on TV by the stars "gives us celebrity endorsements" of a sort, says Randy Frederick, director of marketing for Avalon Beverage Co.

You don't have to be a megabusiness to get your product into scripts and scenes. But you have to be creative—and you may need an agent.



up Hershey Food Corp.'s Reese's Pieces—after Mars Inc. passed on the privilege for its M&Ms—and now he's devoting a good chunk of his business to helping small companies score the same kinds of coups.

"A small company cannot buy any network TV," says Kovoloff, president of Production Resource Center/Spectrum Entertainment in Encino, Calif. "A small company [typically] cannot buy national

radio or billboards. I try to get them to the next level with placements."

It isn't necessarily easy. Product placement is a gambler's arena because it's unpredictable. It's the antithesis of paid advertising, in which audience exposure and response can be measured to the nth degree. Placement can require a lot of hard work. And it usually is effective only if it's integrated with the rest of a small company's marketing program.

For example, placement makes sense as a major marketing method for Avalon because of the inherent difficulty of differentiating various competitors' bottled-water products and because bottled water is often an impulse purchase.

"Consumers are apt to buy the brand they're familiar with," says Randy Frederick, director of marketing for Avalon, whose product also has been sipped by Jennifer Aniston in her recent movie "Object of My Affections" and by Kristen Johnson on NBC-TV's "3rd Rock From the Sun."

"In a way," Frederick says, placement "gives us celebrity endorsements. Besides, anecdotal response is much more important than impressions. You know when you've hit a home run because the distribution salespeople on the street say, 'I saw it, and the customer saw it.' It causes all kinds of familiarity in that way and gives us talking points in our conversations with customers. We also use clips of our placements to kick off our sales meetings and fire up our troops."

For EquiSearch.com, a firm with six employees, the fallout from placement has been more dramatic. Technology consultant John Marriott bought the fledgling company early this year largely because he was sure it would gain prominence in "The Horse Whisperer."

It was a good bet: Traffic to www.equisearch.com more than doubled from previous levels, to 15,000 hits a day, the week that the movie premiered last spring, and it has held at 10,000 to 12,000 visits a day even though the film is gone from theaters.

Kristine Griscom, who founded and sold EquiSearch and is now director of site development, says the many hours she spent on the placement proved "absolutely worth it." Horse people are close-knit, she says, and "have become loyal to us."

Says owner Marriott: "The placement

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also helped us attract big-brand advertisers to our site."

Few entrepreneurs have pursued product placement with the single-mindedness of Vic Odryna. Noticing that computers on the set of the nurses' station on NBC's "ER" didn't look realistic, the president and owner of PixelVision Technology, Inc., a manufacturer of flat-panel monitors, decided to find out how his screens could be put there instead. He hired a placement agent, and PixelVision's screens and logo soon began appearing prominently throughout weekly "ER" episodes.

"The value to us has been fantastic," says Odryna, whose firm, based in Acton, Mass., employs 35. "It has generated a significant strengthening of our brand, and that's the most crucial thing."

PixelVision's next appearance stemming from the \$20,000-a-year retainer the firm pays its agent is a prominent spot in the introduction to the new TV-series version of the sci-fi movie "Total Recall."

If placement seems right for your company, consider these suggestions from experts in the industry for making your firm or your product a celebrity:

Take a strategic approach.

You have two basic choices. You can pepper the media with minor placements to build brand awareness over the long term. Or you can go after a single home run that, in a few seconds of flickering imagery on a screen, could make your product the next Red Stripe. Deciding your aims for placement will dictate your strategy.

Placement typically makes sense only if you distribute nationally or expect to do so. For example, Old Smoky Products Co. is a Houston-based manufacturer of barbecue grills with a distinctive appearance, and it wants to expand beyond the Southeast. So it has launched a placement program with Motion Picture Magic, an agency in Los Angeles. "We're pleased with the potential," says Robert Rollins, marketing consultant for the company. "There are a lot of

TV shows and movies with outdoor scenes where people are cooking."

Indeed, some product categories simply lend themselves to placement more than others do. Anything that stars actually consume or wear, for example, makes sense. Lots of moviegoers noticed the Ray-Bans on Tom Cruise in "Risky Business" and on Tommy Lee Jones and Will Smith in "Men in Black." Julia Roberts just happened to wear her personal sunglasses in "My Best Friend's Wedding," but that didn't stop legions of viewers from trying to find a pair just like them.

"People really do watch what actors are eating, drinking, and wearing," says Kim Lane, account executive for Catalyst Group, a product-placement agency in Burbank, Calif.

Do your research.

If you decide to pursue this type of product exposure, determine the placement en-

vironment you'd like for your products or services; even think about specific set-decoration opportunities, for instance, as you watch a TV series.

Figure out what venues your customers might be seeing. "Pick shows you like and understand and that your customers might see," advises Linda Demeduk, production coordinator for NBC's hit sitcom "Mad About You."

If your product is strictly local, you might offer it to lend authenticity to a production where geographic veracity and texture are important.

To keep abreast of coming productions, scan entertainment trade publications and Web sites. For those that might be filmed in your area, call the film-production offices in your state or city.

Understand TV's peculiarities.

Television can be a much more complicated environment than movies for product placement. Unlike movies, for example, the TV-production industry takes a hiatus in spring and summer, so don't expect to reach people at those times.

More significant, the TV-placement game is deliberately much murkier than movies. That's because the Federal Communications Commission regulates product claims—or anything that might be perceived as such—on TV.

And because advertisers pay dearly to showcase their brands in and around TV shows, companies can't pay to have their products featured within TV shows. Often, in fact, identifiable products' packaging is disguised to look generic or at least unidentifiable.

Thus, placements that clear the barriers of TV always have been determined largely by creative demands and by relationships. Jerry Seinfeld pushed the bounds of TV placement by integrating specific products into the "nonplot" plots that became his show's signature.

By doing so, he basically dared NBC's standards-and-practices staff to stop him. As a result, television writers and producers are generally feeling more freedom to

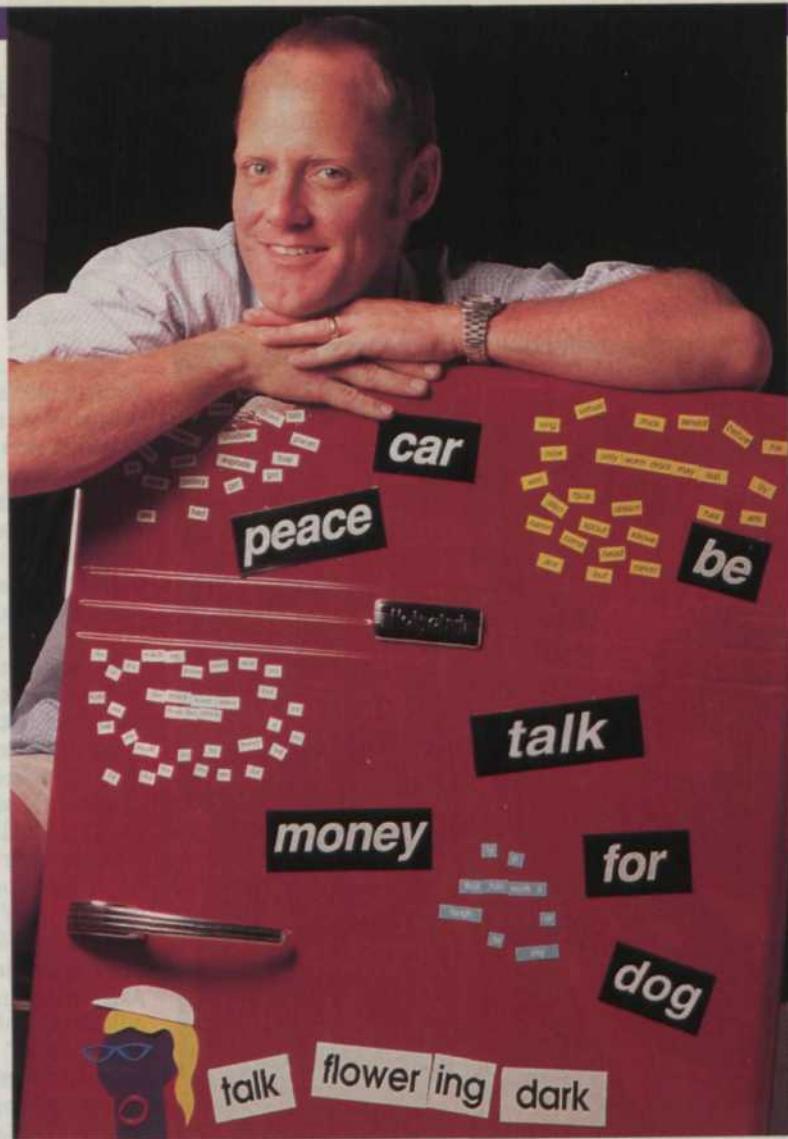


PHOTO: STEVE WOIT

When his product appears in major films and prime-time TV shows, Dave Kapell, founder of Magnetic Poetry, parlays the exposure into news-media attention.

use product placement, and marketers are scouting around for the next potentially big vehicle.

Odds now are on Fox Broadcasting Co.'s popular "Ally McBeal" sitcom.

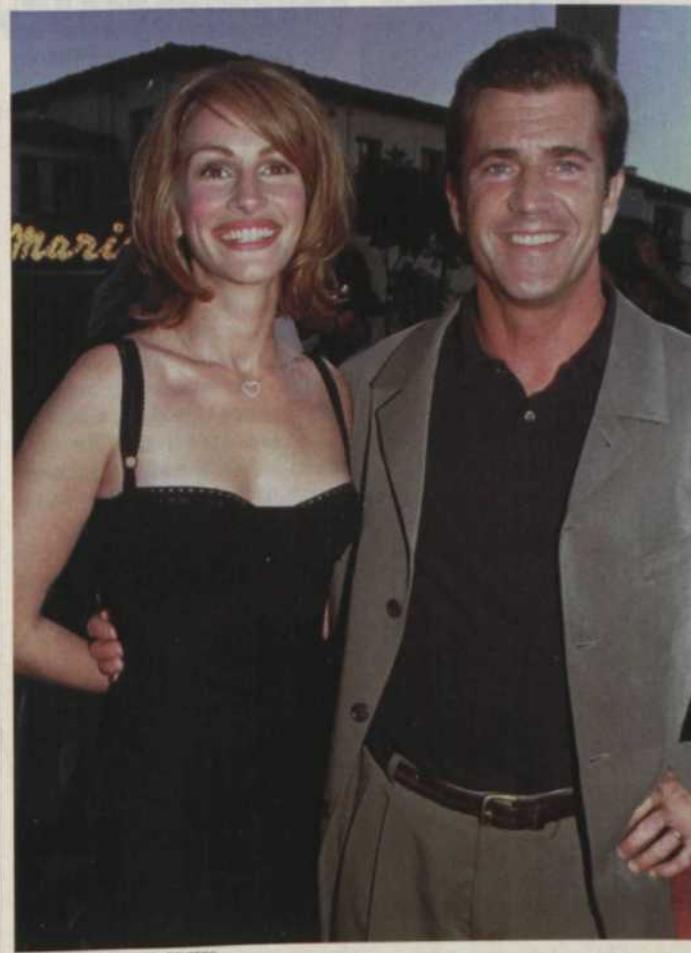


PHOTO: © FRED PLOURIER—REUTERS

With star power like Julia Roberts or Mel Gibson surrounding your product on screen, your wares will attract attention.

Go it alone.

Securing product placements without help isn't for the faint of heart. There's no easy road map, and it can require hours of phone calls, electronic mailing, and other networking to contact the right people at production companies, Hollywood studios, prop masters' unions, and set-decorating concerns. Scripts can be hard to come by, studios labyrinthine and unresponsive. As with any form of aggressive marketing, persistence, patience, and constant alertness can be crucial.

But going it alone can work. By itself, Pumpkin Masters Inc., a Denver-based maker of kits for carving jack-o'-lanterns, has combined various approaches to forge an impressive record of placements.

First, several years ago, the company landed two pumpkins—carved with the National Football League logo—in the lead-in to a Halloween edition of "Monday Night

Football." Then, marketing staffer Cheryl Stoughton scoured *Variety* to learn about upcoming productions. She took out a \$200 ad in *Debbie's Book*, a set-decorating catalog that is building its listings of goods made

by small companies. And she spent countless hours phoning studios and following up with press kits.

Soon, the 16-employee company was scoring pumpkin placements on "Roseanne" and other shows and got its carving kits onto the TV shows "Home Improvement" and "Seventh Heaven."

Once you're in line for a placement, be ready to provide a free supply of your products anytime, anywhere. "If there's a fireplace set and they need a fireplace screen and yours is available, it's in, as long as we can let them know about it and get it here," says Debbie Hemela, the Los Angeles-based publisher of *Debbie's Book*.

Use any and all connections.

The fact that a marketing executive has friends in Hollywood helped GoldMine Software Inc., a small firm in Pacific Palisades, Calif., get packages of its software to appear in the backdrops of sitcoms such as "Seinfeld" and in movies such as "Mouse Hunt" and "Peacemaker."

EquiSearch.com got hooked up with Touchstone Pictures after founder Griscom heard the buzz about "The Horse Whisperer" in equestrian circles and

TV's "Seinfeld"—with core cast members, from left, Michael Richards, Julia Louis-Dreyfus, Jerry Seinfeld, and Jason Alexander—was a major venue for product placements.

learned that the producers were looking for an equine consultant.

And Magnetic Poetry founder Dave Kapell believes that much of his company's placement success—which also includes appearances in NBC's sitcom "Caroline in the City" and Fox's prime-time soap "Beverly Hills, 90210"—stems from his decision a few years ago to donate 1,500 kits to fashion designer Cynthia Rowley, who then passed them on to her Hollywood pals.

Get an agent.

If you can't afford the investment of time and energy to try placement on your own, and if your only connection to Hollywood is your VCR, hire an agent. Agents can be very effective because they spend their days talking with studio employees and poring over scripts in search of placement opportunities for clients. They can steer you toward shows and movies that might be a fit and away from those that might spell trouble for you.

Agencies charge as little as \$500 for a single placement to as much as \$20,000 a year for a guaranteed multitude of placements. Like Kovoloff's, some agencies also help boost small fry onto the screen, in part because it enhances their own reputation for innovativeness.

For Avalon Beverage, for example, the agency was crucial to penetrating the thinking of the producers, using tactics such as providing all the drinking water for the shoot's cast and crew. "We had a whole educating process," says Caressa Douglas, account executive for the Catalyst placement agency. "We wanted everyone to get familiar with the product so they'd be comfortable with it on the set."

Motion Picture Magic has snared placements for RAM Sports Inc., a Denver-based sports-ball company, in basketball-heavy films, including "Flubber" and "He Got Game." Now, the maker of Classic-brand balls devotes up to 20 percent of its \$250,000 marketing budget to placements.

Randy Jones, co-owner and chief financial officer of RAM, which has 50 employees and \$10 million in annual sales, says: "When we have an exposure, our phone rings off the hook with calls from customers and business associates."



Be prepared for anything.

Even once you're "inside" Hollywood, placement operates within a highly

PHOTO: © HO—NBC—REUTERS

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mercurial environment where your product can be dropped because of creative decisions, stars' pet peeves, or budget considerations.

Or a film can be rated R when you were expecting PG-13. That's what happened to Fred Usinger Inc., a small, Milwaukee-based sausage maker. In the recent Universal Pictures movie "BASEketball," directed by Milwaukee native David Zucker, Usinger's advertising banner hangs prominently in an arena, and its hot dogs feed a crowd.

But John Gabe thinks the R rating kept people away from the film, which wasn't a box-office standout. "I hope that whatever caused it to be an R movie can be cleaned up to some degree for video release and then for TV," says the vice president of sales and marketing for Usinger.

You can be left on the cutting-room floor, of course, or your product can be used in a way you didn't expect. Consider what happened to Snak King Corp., a small, Los Angeles-based maker of snacks. "In one smaller movie, a couple of guys in a machine-gun battle flew through our racks in a pool of blood," recalls Barry Levin, the firm's president.

On the other hand, you can try to take advantage of controversy. When Heidi Schuster's agency wanted to place Blitz Power Mints in the coming-out episode of ABC-TV's "Ellen," for instance, Schuster, whose company distributes the European-made mints in the United States, said yes. "I knew it was going to be a highly viewed episode," says the co-owner of Milwaukee-based Schuster Marketing Corp. The drawback: The 4-foot-high display of Blitz mints could barely be glimpsed while Ellen was seen in a grocery store.

Follow up aggressively.

Even if on-screen time turns out to be minimal, you can leverage your product's appearances in other sales and marketing venues. RAM made sure it had plenty of basketballs to distribute to extras on the set of "Flubber"; Usinger's turkey dogs fed the crew of "BASEketball."

Reels of video clips, mentions in brochures, and "as seen on TV" still shots displayed at trade shows can be effective in stretching the impact of placements. Schuster gets video clips and distributes them to brokers as sales aids.

For Pumpkin Masters, placements were nice, but the big payoff came when it hyped its Hollywood connection with brochures

and video clips at Halloween-merchandise trade shows. At one, Wal-Mart Stores Inc. placed a big order. Now, the kits are in most major retail outlets.

Public relations often can pick up where

was the centerpiece of an episode of the hospital drama. That day, the company's public-relations agency pitched the placement story to the CBS affiliate in Boston.

A reporter went to Logan Airport, got some flight attendants to demonstrate the device, and fed the story to network affiliates around the country. (Since then, the \$10 million company has been purchased by Hewlett-Packard Inc.)

Even placements gone bad can garner attention. For example, Cannondale Corp., after hiring a placement agency to get its bike to displace a rival machine on the back wall of Jerry's apartment in "Seinfeld," yanked its products because, it says, the show demanded 12 free bikes for the cast. Then the firm issued a tongue-in-cheek press release about the "missing" Cannondale.

"In a weird sort of way [the dispute] benefited us" because of the media attention it generated, says Tom Armstrong, a spokesman for the Bethel, Conn., firm.

After all, the idea of most marketing is to make sure that whatever the context, your brand is noticed and recognized—and that's what placement can do so well. "People want to get lost in a movie, and researchers have found that audiences will stay if it seems natural and not contrived," says Jim Karrh, assistant communications professor at Ithaca College in Ithaca, N.Y. "So they like seeing brand-name products in movies. It gives them a connection to the characters."



After a New Hampshire firm's Internet site was seen being used in "The Horse Whisperer," starring Robert Redford, visitors to the site doubled.

placements leave off. Magnetic Poetry's Kapell has become an expert at parlaying placements into attention by news media. "They say people have to have seven exposures before making a buying decision," he says, "and that's what I'm working on."

After Heartstream Inc. announced in 1996 that heart defibrillators would be placed aboard American Airlines planes, the Seattle-based company heard from CBS-TV's "Chicago Hope." A year later, the company's Forerunner AED defibrillator

Resources

Here's a sampling of resources that can help small firms with product placement:

Studios and production companies.

For listings of contacts with such companies, see *Quigley's International Motion Picture Almanac* or *Quigley's International TV & Video Almanac* in libraries, or call Quigley Publishing Co., Inc.; 1-800-231-8239.

State and local contacts. Find out about coming productions in your areas by contacting the Association of Film Commissioners. For a listing of members, call (213) 462-6092.

Set-decoration contacts. The leading set-decoration catalog is *Debbie's Book*.

Find it on the Internet at www.debbiebook.com or call (626) 798-7968. A leading set decorators union is local No. 44 of the Affiliated Property Craftpersons in Los Angeles, at (818) 769-2500.

Placement agents. For a listing of professionals for hire, visit their trade association, the Entertainment Resources & Marketing Association, at www.erma.org on the Internet.

Following are some members that work with small companies:

- AIM Promotions, New York City; (718) 729-9288.
- Motion Picture Magic, Los Angeles; (818) 905-9814.
- Prime Time Productions & Promotions, Norridge, Ill.; (708) 456-5900
- Spectrum/The Production Resource Center, Encino, Calif.; (818) 382-2055.

TRANSPORTATION

A Way To Lower Shipping Costs

By Ken Cottrell

Kathy Hendrixson used to spend a lot of time calling truckers to get the best deal for delivering the marshmallow ice-cream cones her company manufactures. But since Marshmallow Products Inc. in Cincinnati joined a shippers cooperative last year, Hendrixson makes just one call to arrange for a shipment, and she now pays about 40 percent less for freight services.

When the 50-employee manufacturer was approached by the Cincinnati-based Nationwide Shippers Cooperative Association, Hendrixson says, "we didn't know anything about shipper cooperatives." Now she's a convert: "I think more small companies should know about them."

Cooperatives are nonprofit organizations that leverage their buying power to lower the cost of freight shipments for their customers. They arrange for shipments to be picked up and delivered, and they handle all payment negotiations. Representatives of member companies usually meet once a year to appoint a board and determine operating policies.

The American Institute for Shippers' Associations (AISA) in Washington, D.C., has close to 50 member co-ops. That represents a high percentage of all U.S. shippers cooperatives, says Glen Cella, the institute's executive director. However, there is no national database of these cooperatives, so the exact number is unknown, he adds.

A Swing Of The Pendulum

The popularity of co-ops declined in the 1970s and 1980s after deregulation of the freight-hauling industry. Many small and medium-sized shippers decided they could negotiate effectively as independents, and some co-ops disbanded as a result. Now the pendulum is swinging back in favor of co-ops as the freight-hauling industry consolidates and small companies have fewer choices in deciding how to ship goods—and less room to negotiate good rates on their own.

Says Ron Cobert, a Washington-based attorney who represents shippers cooperatives: "There is no question that cooperatives are growing," enabling small shippers to get better rates by pooling their business and increasing their market muscle.

AISA's Cella says that most of the domestic freight moved by his organization's

Small firms are finding that as the freight-hauling industry consolidates, cooperatives can offer shippers increased buying power and convenience.



PHOTO: JIM CALLAWAY

Marshmallow-products maker Kathy Hendrixson surveys the sweets with John B. Arbino, president of Co-Mac, Inc., a Cincinnati-based supplier to candy and confectionery manufacturers.

members is transported by road, a sector of the freight-hauling industry where there has been marked consolidation. Although there are numerous small operators, road freight is dominated by three or four carriers, says Cella.

The dominance of large freight carriers is even greater in the rail sector. In June, the Surface Transportation Board—the federal agency responsible for competition policy in transportation—gave the green light for two railroads, Richmond, Va.-based CSX and Norfolk, Va.-based Norfolk Southern, to swallow the Northeast's biggest rail carrier, Philadelphia-based Conrail.

When the \$10.2 billion merger is complete by mid-February, there will be just four major freight railroads in the United States.

Similar consolidation is under way on water. The Ocean Shipping Reform Act, which President Clinton signed into law at the end of October, fundamentally alters the relationship between shipping lines and their customers. The new law is to take effect May 1, 1999.

The measure allows service contracts between carriers and shippers to be confidential. Under current practice, ocean

shipping lines are required to post freight rates publicly. The large carriers have supported the change, but small shippers are concerned that it will favor large-volume shippers who will be able to secure big discounts in secret negotiations.

Moreover, the act preserves shipping lines' immunity from anti-trust regulations, enabling ocean carriers to operate as large groups, which critics—including many small shippers—regard as cartels.

However, shippers' cooperatives may actually benefit from the act, says AISA's Cella. The act prohibits ocean carriers from discriminating against cooperatives by not accepting their business or by denying them the volume discounts they give larger customers. "That fact could, in turn, help drive smaller shippers to join cooperatives as their surest refuge from predatory carrier pricing," Cella says.

From Slipcovers To Spirits

Cooperatives range in type from those dedicated to serving a specific business sector to generalists that arrange transportation for virtually any cargo.

Bennett Hillman, inventory controller for Hoch and Selby Inc., a Portland, Ore.,

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manufacturer of upholstery fabrics, says his firm is a long-standing member of WOSCA Transportation Services Inc., a shippers cooperative headquartered in Seattle. WOSCA handles almost any type of freight, although "about 85 percent of our business is retail goods," says the cooperative's president, Brian Volkert.

Hoch and Selby, which employs 12 people, might receive 40 to 50 shipments a month, but these are usually small shipments—and small change for many trucking companies.

Hillman says that the volume discounts the cooperative offers usually make it the most competitive choice.

The Wine and Spirits Shippers Association (WSSA) in Reston, Va., is a specialist cooperative that serves about 450 member companies in the alcoholic-beverages trade.

"The weak link in the chain is the small guy, and his main recourse is to join an association," says Geoff Giovanetti, managing director of the cooperative. Most of the WSSA's members are small or medium-sized enterprises, he says.

Each year, the cooperative, on behalf of its members, handles shipments totaling about 20,000 20-foot-equivalent units, or TEUs. (Each unit is based on a 20-foot-long freight container.) "As well as negotiating contracts, we handle shipping arrangements," says Giovanetti.

The lower cost achieved through membership in the WSSA is appreciated by Tom Dunkle, chief of purchasing and distribution for the Pennsylvania Liquor Control Board in Harrisburg. "The non-profit association charter is a good fit for us," says Dunkle.

The board distributes about 9.5 million cases of wine and liquor products annually from foreign and domestic suppliers to 650 retail outlets throughout Pennsylvania. The outlets range from small wine shops to large stores.

The movement of about 900 TEUs of wines and spirits shipped from overseas suppliers was formerly managed by a U.S. importer, says Dunkle. The importer still sells products to the board, but door-to-door delivery is now handled by the WSSA.

Transferring this business to a shippers cooperative has given the board "more control over the movement of cargo in terms of ports of entry and carriers," says Dunkle.

More control means lower costs. When the importer managed the entire process, the board paid a blanket fee that included freight rates, Dunkle explains. But any savings—when freight rates fell, for example—accrued to the importer, not the shipper. "When the U.S. importer made the arrangements, we were paying him the total cost, and that does not change," notes Dunkle.

Overseas Expansion

Most of the shipping done by cooperatives is domestic, but there is growing interest in international shipping. This is a growth area for the Merchant Shippers Cooperative Association in Augusta, Maine, says George Wilmott, the association's vice president for operations. "A lot of shippers want to get into the international market, but they need help from organizations like ours," he says.

Food and agricultural-product companies in the Midwest hope that a new shippers cooperative being formed there will yield enough savings to improve

coastal regions, he says, making these enterprises more competitive, particularly for overseas buyers.

For instance, many foreign buyers place their cargo-consolidation centers near U.S. ports, explains Winget. For Midwestern exporters, moving cargo to these centers is an added cost.

One limitation of shippers associations, Winget notes, is that they can't deliver economies of scale until the customer base reaches a critical mass.

A cooperative "has to start in a limited

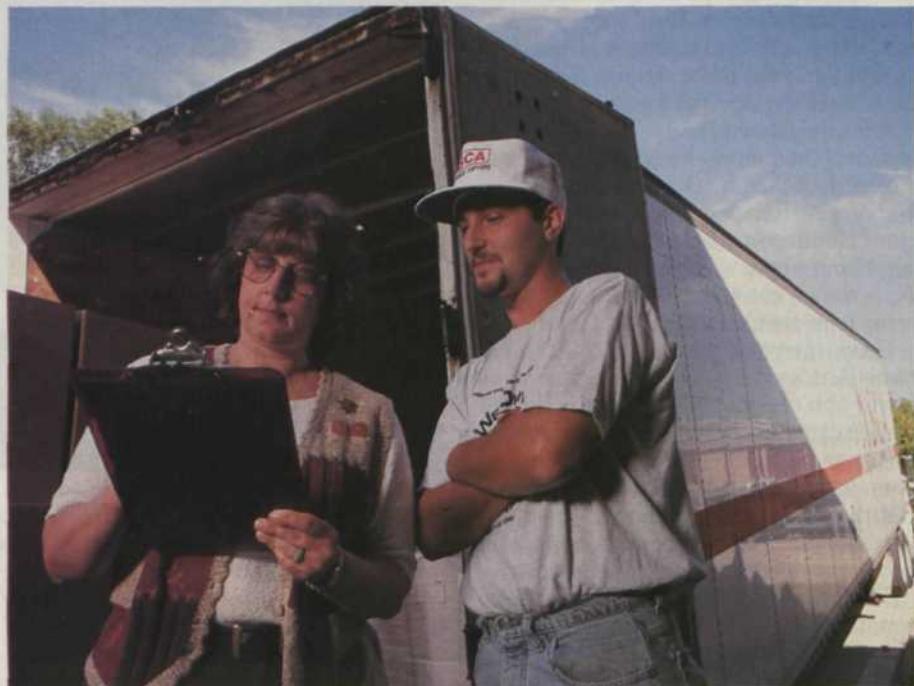


PHOTO: JIM CALLAWAY
Shipping costs have dropped for Kathy Hendrixson's firm since she started using the Nationwide Shippers Cooperative Association. With her is driver Donovan Ellis.

their competitiveness in international markets. Formation of the new co-op is being sponsored by the Mid-America International Agri-Trade Council (MIATCO), a Chicago-based trade association that develops export markets for Midwestern agricultural producers. Plans call for the co-op to be launched during the first quarter of 1999.

The goal, says Gary Winget of Global Resources Associates Inc. in St. Paul, Minn., is to create an organization that will "transform hundreds of small- and medium-volume shippers into a large-volume shipper." Global Resources, a consultancy specializing in international trade, is helping MIATCO set up the cooperative.

"Transportation costs are a major competitive hurdle for many Midwest exporters," says Winget. Freight costs are generally lower for U.S. exporters based in

number of trade lanes where it can negotiate rates for its members," he says. That means that it can take some time before a cooperative can deliver the lower costs it promises.

Also, in specialized trades, shippers may be loath to switch to a freight-service provider with which they are unfamiliar. In the food business, for example, "some shippers have heard horror stories and find it difficult to switch," says Winget.

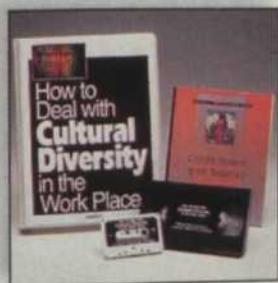
Clearly, companies should evaluate cooperatives as carefully as they would other service providers. But the cost savings that shippers cooperatives offer small and medium-sized firms have taken on new importance given the continuing consolidation of the freight-hauling industry.

Ken Cottrell is a free-lance writer in Yardley, Pa.

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MANAGING

Enlisting A Coach To Boost Your Game

By Dale D. Buss

For a long time, Dori Thornhill suspected that she was just too nice. Instead of nurturing large clients that could afford to pay what was necessary to get the job done, the president and owner of TSH Marketing Group, a consulting firm in Austin, Texas, found herself squandering dozens of hours "doing a lot of work for small companies that just didn't have the budget for what they wanted to do."

That was until Kathie Bolles came along. After meeting Bolles at a networking luncheon this year, Thornhill decided that Bolles and her Austin firm, Coach-Success, could provide Thornhill's business a sort of "therapy"—a type of self-inflicted kick in the pants that would help her eliminate her bad business habits.

For \$400 a month, Bolles began having weekly half-hour phone sessions with Thornhill about the latter's management style. Bolles also sent encouragement to Thornhill via frequent electronic-mail messages. Soon, Thornhill says, "I wasn't getting sidetracked" trying to help clients that had inadequate budgets.

"We had a lot of conversations about 'What do you really need to be doing right now?'" recalls Bolles, who also is a registered nurse and a licensed psychotherapist.

The assistance provided by Bolles went beyond pure business advice. Segueing into Thornhill's hectic personal life as well, Bolles recommended that the entrepreneur, wife, and mother hand off some of her nonbusiness obligations. "So I hired a maid and gave management of our rental property to my husband; he's better at it than I am anyway," Thornhill says.

Thornhill and Bolles are part of the quickly growing wave of "coaching" relationships that are helping small-business owners improve their business skills, recalibrate their approaches to management, and, often, totally reboot and rebalance themselves as leaders on the job and in the home and community.

Industry participants estimate that there are more than 5,000 people who label themselves "coaches"; as recently as two years ago, there were about 2,000.

Business coaches can be many things: adviser, motivator, sounding board, and, indeed, therapist. "The relationship evolves over time based on the client's



With the help of business and personal coach Kathie Bolles, right, Dori Thornhill of TSH Marketing Group in Austin, Texas, has been getting the message on how to eliminate some of her bad business habits.

agenda," says Rich Fettke, a small-business coach in Lafayette, Calif.

Although many big-company executives retain coaches, small-business people may be the ones most in need of such help. Jeff Raim, president of the International Coach Federation (ICF), based in Angel Fire, N.M., says: "There's no one for the small-business owner to draw wisdom from in his structure, and getting it all from experience can be very expensive

and time-consuming. In that sort of arena, a good coach can be very valuable." Raim has owned several businesses and works exclusively with entrepreneurs.

It's easy to be skeptical about coaching. Even many of its practitioners don't seem to know exactly how to define it. Few academics have studied it. The name's allusion to the athletic world evokes images of detached exhortation,

Versatile business and personal advisers can help entrepreneurs improve their skills on and outside the job.



while on the opposite extreme it may seem touchy-feely and overly personal. And as with any relationship that depends on the dynamics between two people, coaching can go awry.

But a clearer definition of coaching is emerging. It's more than consulting, which generally is a finite arrangement confined to business practices. And it's different from mentoring, which almost always involves someone with a good deal of experience in a position similar to that of the person whom the mentor is advising.

"We're focusing more on the person than on just the job, and on who they are rather than just what they want to accomplish,"

says John Seiffer, a coach in Bethel, Conn.

Coaching also is becoming more formally professionalized. For example, in September the ICF began distributing new standards to establish a credentialing process for coaches.

Most of those who have received coaching say they benefited from it. In a recent ICF poll of 210 clients, for example, 70 percent said they found their coaching "very valuable" and 28 percent thought it was "valuable."

Thumbnail sketches of five such relationships reveal some of the things that business owners like about coaching:

Richard Westlake And Ron Ernst

Home builder Richard Westlake, co-owner of Hansen & Horn Group Inc. in Indianapolis, appreciates the fact that his coach, Ron Ernst, "forces me to go the extra step or two" when making key decisions.

For example, the 44-year-old Westlake recently was about to hire a vice president of operations for his 35-employee, \$20 million company. In the past, he typically would have settled on one of the two candidates that his customary recruiting process came up with.

But Ernst, president of Indianapolis-based Leadership Horizons, "wasn't satisfied with these guys because he'd worked with me and felt that neither of these people really would be compatible with my personality," Westlake says.

"So he had me take a couple of extra weeks, talk to recruiting companies, do some more networking, and even take out a newspaper ad, which I hadn't intended to do. It generated another 25 résumés, and I ended up hiring just the right individual—which I wouldn't have done without Ron."

Westlake also believes that Ernst's guidance has helped him achieve a major business objective that he otherwise wouldn't

have reached: diversifying into construction of retiree housing. "He kept me focused by continually asking me, 'Rich, what do you *want* to do?' not 'What *can* you do?' And now there are bulldozers out there moving dirt for our first senior condominium."

Joe Reilly And Mary Sickel

Since early this year, Joe Reilly, owner of Payroll Control Systems in Plymouth, Minn., has been coached by Mary Sickel, owner of Visionary Growth Resources in Lakeville, Minn.

One of her first successes was helping Reilly delegate big tasks that didn't require his direct involvement, such as converting all the company's systems to electronic tax filing and deciding which personal computers and other technology to buy.

"I have people who were really good at that, and [Sickel] pointed that out to me," says Reilly, 55, whose three-year-old company has six employees and generated revenues in the high six figures last year. "So I turned all that over to my general manager, Bob Wessel, and he loved it."

Sickel burrowed further into Reilly's relationship with Wessel and found out that his right-hand man was a new father and might be looking for a little relaxation. Reilly had won a free stay at a local Marriott hotel at a golf outing, and Sickel suggested that Reilly offer it to Wessel. This simple, easy gesture, which Reilly had been too busy to consider, scored big points for him with Wessel.

"In general, the best coaching is going to come from someone who knows the game from the inside, who's been in the arena, who's fought the battles and can tell other people what to do."

—Jack Roseman,
Professor of Entrepreneurship,
Carnegie-Mellon University

Lesley Delgado And Bill Pinkerton

Although Lesley Delgado had started her temporary-placement service six years ago, she had procrastinated on writing training manuals for three important jobs in the company. As a result, the training that employees received was inadequate. After only three months of coaching by Bill Pinkerton,

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Delgado completed the manuals.

"People have a tendency to put things off that [they] really don't want to do," says Delgado, 35, who owns Staff Pro America in Southfield, Mich. Pinkerton "has made me look at myself and the negative sides, and how they may be impacting my staff."

Pinkerton also has helped Delgado be more considerate of whether employees are understanding her directives. "I'm more deliberate now, adjusting my style to them so they can comprehend the message I'm trying to deliver."

Pinkerton, 56, is a former AT&T Co. executive who heads VV Inc. in West Bloomfield, Mich. He says that what makes coaching worthwhile are the moments when clients break through to a new level of understanding. "Three out of five sessions we make great progress," he says, "and many times just one idea will make it worth the time for them."

Nick Seamon And John Seiffer

Nick Seamon's deli and catering business in Amherst, Mass., the Black Sheep, has



The deli and catering business owned by Nick Seamon, left, faces some problems managing growth; Seamon's business coach, John Seiffer, right, helped him understand the need to focus on the catering side of the operation.

survived ups and downs, including a filing in bankruptcy court a few years ago. Now, with about 40 employees and revenues of \$1.2 million in 1997, Seamon's biggest problem is managing growth.

That's where John Seiffer has been a boon. He helped Seamon understand that he must emphasize the catering side of his business—in part because the store simply doesn't have much more space for additional merchandise or customers.

Seiffer also persuaded Seamon to undertake weekly cash-flow planning and to assign his catering manager to do it. "Now we know whether we can spend money or not," Seamon says.

Over a period of months, Seiffer made Seamon realize that he needed to stop working the deli floor so much. Seamon says Seiffer told him repeatedly: "You're much more valuable doing strategic stuff, because with one good decision a week you can make up all the money spent on any extra help."

Says Seamon: "He finally won."

Mitch Vigveno And Jeff Raim

Mitch Vigveno owns Turning Point Inc., a Clearwater, Fla., recruiting firm specializing in finance professionals. "As a small-business owner, we're not accountable to anyone else," he says. Jeff Raim helps Vigveno on a variety of fronts, ranging from simple tips on how to assemble and stick to a master to-do list to how to plan for diversification.

"The weekly phone calls have helped

Frequently Tackled Problems

Sandy Vilas, president of Coach U Inc. in Steamboat Springs, Colo., has identified six common problems that coaches help entrepreneurs address:

1. Handling the wrong tasks.

"If you take a look at how most entrepreneurs spend their time," Vilas says, you'll find that "they're doing stuff on a daily basis that often doesn't support the mission of the company."

"What are they doing entering checks into [an accounting software program] on a daily basis, for example, when that should be the job of a \$25-an-hour bookkeeper?"

The key for entrepreneurs is to stick to what they do best and delegate the rest of the load but not abdicate it. If a business owner is great at sales, Vilas says, he or she shouldn't be doing administrative

tasks. "They need to be out on the street."

2. A lack of balance.

"They market, market, market, then deliver, deliver, deliver, and then they have to go market again because they've been so busy," says Vilas. "They don't have a system in place to keep the balance between marketing and delivering."

3. Playing the Lone Ranger.

"They think they have to be experts at everything and they have to do everything on their own because their parents told them if they wanted the job done right, just do it themselves. They need to be able to delegate, let go, and trust."

4. Misinterpreting the source of problems.

"Usually [problems] stem from personal-

foundation issues" rather than just business concerns per se, Vilas says. Coaches can help entrepreneurs get their personal lives in order, which can go a long way toward solving what may have looked like purely business problems.

5. Forgoing buffers.

"If an entrepreneur doesn't have a reserve of time, space, energy, love, money, and opportunity, they're going to have problems," says Vilas. One of an entrepreneur's focuses in a coaching relationship should be building these reserves.

6. Allowing life to get too complex.

Entrepreneurs sometimes just need "to simplify and yet diversify their lives. It's not all about just working longer and making more or just working smarter," says Vilas. "Someone living a balanced life, with interests outside the business as well, can be more effective at running a business."

keep me aware of the need for balance and to be more forgiving of myself when things don't happen the way I want them to," Vigveno says.

Such counsel also slides over comfortably to Vigveno's personal life, which turned disastrous four years ago—before he founded the business. After he left his job, he says, "my wife left me. Jeff helps me focus on the spiritual side of myself as well."

Still, Vigveno expresses dissatisfaction with one aspect of coaching, one that is a staple of nearly all coaching relationships—it occurs mostly over the phone. "I'd get much more out of it if I were sitting face to face with Jeff every two weeks."

How can you help build the kind of coaching relationship you want, whether it's via phone or face to face? Here are eight tips:

1. Be ready to stretch.

More than anything else, having a coach will unsettle the entrepreneur—which is usually the whole idea. "We ask them powerful questions to get them to self-discover what they're going to do," says Sickel of Visionary Growth Resources.

Prepare for coaching directives such as setting priorities and restoring balance. Says Sickel: "Entrepreneurs typically have so many ideas that they can't possibly make them all happen at the same time. We help them focus and get things done."

2. Reckon with accountability.

This is perhaps the most essential element of a coaching relationship. "Most CEOs of closely held businesses have zero accountability other than maybe to the bank," says Westlake, the Indianapolis home builder.

You should have an agreement from the start about the specific meaning of accountability. Some coaches come right out and say that they're giving their clients someone to be accountable to; others insist that they only help clients be more accountable to themselves.

Some clients allow coaches to set up a

structure that encourages accountability, such as being "fined" for failing to perform an agreed-upon task. The fine might involve having the business owner make a donation to a group he doesn't like. "You can waste a lot of money if you don't do what you're supposed to do in between sessions," Vigveno says.

3. Check references.

Before you select a coach, make sure you check the person's background, references, and approach, advises Jane Applegate, a syndicated small-business columnist and owner of The Applegate Group, a multimedia-communications firm in Pelham, N.Y.

Most coaches conduct a complimentary two- or three-hour initial session in which

Some argue that the best coaches are those who specialize in helping owners in a particular genre, such as accounting, health care, or manufacturing.

Applegate, however, says that in her opinion some of the best coaches are psychologists who have little or no business background or perhaps have owned a business but don't know anything about the client's industry.

4. Establish a fee structure.

The staple of most coaching relationships is a weekly half-hour or 45-minute phone conversation, supplemented with impromptu phone availability, e-mail messages, quarterly bull sessions, and other points of contact. Typical fees range from \$250 to \$500 a month.



The guidance offered by business coach Ron Ernst, right, enabled Richard Westlake, co-owner of an Indianapolis home-building company, to diversify the firm into housing for retirees.

they try to understand their potential client and allow him or her to understand them; both parties usually can tell right away if there's going to be a match. "Auditioning" three coaches in such sessions is becoming the norm.

"In general, the best coaching is going to come from someone who knows the game from the inside, who's been in the arena, who's fought the battles and can tell other people what to do," says Jack Roseman, a professor of entrepreneurship at Carnegie-Mellon University in Pittsburgh.

5. Decide where to draw the line.

In the poll conducted by the International Coach Federation, half of the respondents said they confide in their coaches as much as they do in their best friends, spouses, or therapists. Twelve percent said they confide in their coaches more than they do in anyone else.

Applegate, for example, became friends with her coach and his family and stopped using him as a coach.

And Seiffer invested in Seamon's company and is compensated with dividend

MANAGING

checks rather than direct fees.

On the other hand, Delgado, the temp-service owner, eagerly has expanded the services of her coach, Pinkerton, into her personal life. "I'm what drives my business, and how successful I am as a total person drives that," explains Delgado. "When I'm happy, everyone's happy."

Says Pinkerton: "Coaching has to do with the whole person. We're talking about establishing personal as well as professional goals. It's difficult to separate the two."

6. Explore group coaching.

Westlake, for example, pays Ernst more than \$1,000 a month to coach Hansen & Horn Group's entire leadership team.

Bill Thoma, president and co-owner of Thoma Electric Inc., a \$5 million electrical-engineering and construction company in San Luis Obispo, Calif., uses coach Don Maruska to advise the company's top-management team.

Largely as a result of the dynamics that come from working with a handful of people at once, Maruska was able to help the executives realize why they were losing \$150,000 a year in their repair-services operation, an arm of the company that Thoma wanted to expand.

"We couldn't understand [the losses],"

Thoma says. "But with Don prompting everyone in the room, it became clear what was going on. We had as many as 125 steps involved in processing a two- or three-hour service call, from answering the phone to fulfilling [the job]."

"That is more steps than we do on a major construction project. Don declared it would take radical surgery, and that's what we did. We cut the steps down to about 20, and now we're doing \$350,000 worth of service each year and making money at it."

7. Play the endgame.

Coaching relationships often naturally outlive their usefulness after a couple of years or so, and you should discuss that possibility upfront with your coach.

Ernst, for example, says that coaching "happens over a period of time" and assumes a "weekly rhythm," but he requires only a 90-day commitment from his clients. "At that point," he says, "we'll both know if you're getting any value out of it."

8. Don't be afraid to sack a bad coach.

You can tell if you're not getting the results you want or if your quality of life hasn't improved since being in the rela-

tionship. If that's the case, go ahead and sever the ties.

Thornhill, the Texas-based marketing consultant, still is very happy with Bolles. And they're still working on some of the owner's problems, such as the fact that Thornhill, by her own admission, doesn't "work very well with software clients."

But coaches can't perform miracles. Bolles, for instance, has been trying to persuade Thornhill to give up a summer-musical charity that takes up a lot of her time.

"It's really dear to my heart,"

Thornhill says, "so I don't think she'll have much luck with that one!"

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For More Information

Here are some authoritative sources on entrepreneurial coaching:

■ Coaches Training Institute: A non-profit organization based in San Rafael, Calif., that teaches coaching around the United States. The phone number is (415) 451-6000; the electronic-mail address is coachtrain@aol.com.

■ Coach University: An online school in Steamboat Springs, Colo., that charges about \$2,500 for two years of correspondence-type coursework leading to coaching certification from the International Coach Federation. The phone number is 1-800-48-COACH (1-800-482-6224); the World Wide Web site is at www.coachu.com.

■ International Coach Federation: Based in Angel Fire, N.M., this professional association of coaches has 1,409 chapters in the United States and abroad. The federation runs a free coach-referral service—call 1-888-BE-MY-COACH (1-888-236-9262)—and a Web site at www.coachfederation.org.

■ Professional and Personal Coaches Association: A San Francisco-based organization of hundreds of coaches that offers assistance and referrals. Membership is \$115 a year. The phone number is (415) 522-8789; the e-mail address is ppca@aol.com.

■ Books: Sources include *The Portable Coach*, by Thomas J. Leonard (Scribner, \$23), and *Coaching, Mentoring and Managing*, edited by William Hendricks (Career Press, \$17).

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INSURANCE

Choosing Coverage For Your Firm

By Thomas Love

Because a fire or other calamity can destroy a business and bankrupt its owners, maintaining appropriate and ample casualty insurance is a must. However, identifying the right policy for your business can be a major undertaking, and the consequences of making a wrong choice can be disastrous.

The first step, insurance experts say, is to find an appropriate agent. "The key to getting the right insurance is looking for an agent who specializes in your type of business," says Loretta Worters, spokeswoman for the Insurance Information Institute, a New York City-based organization supported by 275 insurance companies.

Says Mike Martin, owner of Martin Insurance, Inc., an agency in Lewiston, Idaho: "I'd recommend that a business owner contact a well-established local independent agent because [such agents] are aware and knowledgeable about business insurance and have a variety of companies from which they can seek coverage."

Karen Regan, an agent with Ramsey, Krug, Farrell, and Lensing of Little Rock,

Ark., agrees: "Be sure to choose an agent who represents a number of companies" because different insurance companies specialize in different types of businesses.

Worters suggests seeking recommendations from whoever handles your personal automobile and homeowners insurance. Martin advises talking with business people in your community or asking agents for referrals from businesses they insure.

Crafting The Policy

The next step, experts say, is to work with your agent to ensure that you have enough of the proper type of coverage. Most firms qualify for a commercial package policy that combines coverage for buildings, contents, and equipment, says Ron Whitaker, who owns the Ronald M. Whitaker and Co. agency in New Lenox, Ill. But be aware of the deductible,

he adds. "We always recommend the highest deductible that people can live with because it saves on the premium."

Another factor in choosing a policy is whether it insures for replacement value or depreciated value, Whitaker says. "You can do it either way, but you don't want to insure for depreciated value and think you have replacement cost. We try to promote replacement cost because if something bad happens, we like to have you put back 'new' without having to put out cash."

Before deciding on a coverage amount, business owners should take an inventory of everything in their establishments, says Madelyn Flannagan, manager of information services for the Independent Insurance

Agents of America, a trade group based in Alexandria, Va.

"If they own a building, they should have a formal



INSURANCE

appraisal," she says. "Their agent can ... help them figure out the actual value of the building based on size, type of construction, location, and other factors."

Most policies require coverage for a minimum percentage of the replacement cost, typically 80 to 90 percent, according to Flannagan. If the insurance coverage is less and a claim is paid, she adds, the insured will, in effect, pay a penalty.

For example, suppose a building worth \$100,000 is insured under a policy requiring 90 percent coverage but is covered for only \$60,000. The coverage may have been adequate when the policy was purchased but has fallen short because the building's value rose sharply, or perhaps the owner simply bought a \$60,000 policy while knowing the structure was worth much more.

In any event, payment for any claim would be reduced by one-third—in proportion to the deficiency of the coverage amount.

In addition, Flannagan says, businesses in rented space should have "improvements and betterments" coverage to in-

Causes Of Commercial Property Fires 1991-1995 Annual Averages

Cause	Number Of Fires	Property Damage in Millions
Causes Other Than Equipment (Figures are rounded.)		
Incendiary Or Suspicious	12,800	\$ 695
Electrical	9,300	246
Open Flames, Embers, Torches	8,000	142
Proximity To Another Fire	4,500	90
Natural Causes	3,500	102
Smoking Materials	2,500	43
Heat Sources (Excluding Equipment)	1,500	29
Children Playing	1,300	10
Equipment-Related Causes		
Heating Equipment	4,900	113
Appliances, Tools, Air Conditioning	4,200	50
Cooking Equipment	2,300	28
Other Equipment	12,300	384
Total	67,300	\$1,931

SOURCE: NATIONAL FIRE PROTECTION ASSOCIATION

sure walls, partitions, cubicles, and objects attached to the building.

How To Make The Purchase

"Don't just call around and get quotes and buy insurance like a commodity," Regan says, "because it is not a commodity." She

cites the example of one of her clients who runs a small printing company and recently had a fire loss in the millions of dollars.

"But we had gone through a discussion with him about building values, adequate insurance, special pieces of equipment, and other important items," Regan says. "Not only did we sell him insurance to protect his property but we also sold him insurance so he could continue to pay his employees while the business was shut down, continue at another premises, and pay all the extra expenses that he incurred."

She says the owner's costs would have been higher "if he had bought that insurance as a commodity from an agent who didn't talk with him about all the exposures he had."

Insurance costs for small firms "are at their lowest in a long time," Flannagan says. "There's a great deal of competition because the market is overloaded with products. ... They're adding such things as financial-service products and auto insurance into the mix."

Adds Flannagan: "There couldn't be a better time for small businesses shopping for insurance."

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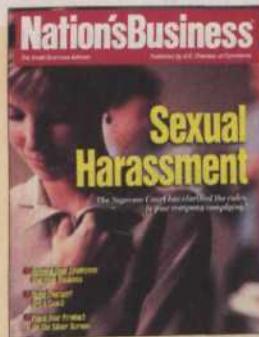
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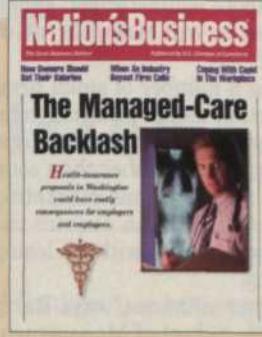


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MARKETING

Banding Together For Market Clout

By Peter Weaver

Problem: How can individual small firms compete against much bigger companies to win large lucrative contracts?

Solution: Bring a number of small firms together to function as one "custom company" supplying a range of services and products. By cooperating rather than competing with one another, some marketing experts say, small firms can acquire the clout of a big organization without losing their individuality.

"These emerging alliances," says Barry J. Nalebuff, a Yale School of Management professor and co-author of *Co-opetition* (Currency Doubleday, \$15.95), "can make you bigger in a cooperative way rather than through internal expansion or merger, reducing the major handicaps of being small without changing the nature of your business."

A couple of small-company leaders who have tried "co-opetition" and say it works are Linda Kolker and Lisa Martin. "Initially we were competitors," says Kolker, president of Kolker Associates, a marketing consulting firm in Silver Spring, Md. "But eventually we teamed up to go after some huge jobs we otherwise would never have been able to handle."

Martin is president of Leapfrog Solutions, Inc., an Oakton, Va., firm specializing in marketing via the Internet. She and Kolker joined forces to submit media design and operations proposals to Mobil Corp. and the Macworld Expo computer trade show in New York City.

In both instances, the Kolker-Martin team beat out proposals submitted by bigger advertising and public-relations firms. Martin, who already had been partnering with a handful of independent media designers, art directors, and writers, brought in some of these specialists to round out the staff that she and Kolker needed for each project. "By banding together," Kolker says, "the synergy helped us make more money and be able to produce a better product for our clients."

Technology's Contribution

Fueling the formation of custom companies is the fact that communications technology is making the size and location of one's business virtually immaterial to customers and clients.

"I don't need a visible office in some commercial center because I can do all my national and international communicating from my home," says Rolf Rudestam, president of the Rudestam Group, a small public-relations firm in Big Bear Lake, Calif. His home office has five networked computers, six phone lines, and Internet access for electronic mail and data transmission.

By sometimes putting cooperation ahead of competition, small firms can take on large projects that they couldn't tackle on their own.

bidding more competitive, and helps deadline-driven work get done faster.

Showing how his group operates, Rudestam cites the example of the work by some of its members on a corporate communications project for Acucorp, Inc., in San Diego. The task is to redo worldwide positioning of the company's newly enhanced Cobol computer-code software. "I'm doing the [public-relations] planning



By teaming up their separate firms, marketing specialists Linda Kolker, left, president of Kolker Associates in Silver Spring, Md., and Lisa Martin, president of Leapfrog Solutions in Oakton, Va., landed major projects that their firms would not have been able to handle alone.

Rudestam, who works with a group of 20 other small public-relations companies in the United States and in other countries, says clients are not affected by or even aware of group members' individuality because "all of us act and communicate as if we were one global entity."

Unlike major public-relations agencies that have large, vertical teams all under one roof, Rudestam's operating teams are kept small and flexible. "We're senior professionals," he says, "and work faster and more efficiently on our own without a lot of account executives, supervisors, secretaries, and clerical workers." This arrangement, he says, keeps overhead low, makes

for North America," he says, "while other team members are doing graphic design, brochures, [World Wide] Web sites, PR for Europe, and PR for Canada."

Another Type Of Team

Thomas Fore, president of Star Progress International, Inc., based in Leesburg, Va., tried a different teaming tactic to expand his building-supplies and hardware exporting business. He partnered with a major competitor many times his size.

"We were exporting to wholesalers and retailers in Lithuania, Latvia, and Estonia," Fore says, "and started to invest in their businesses as partners to build a



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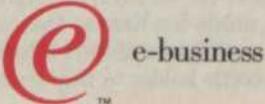
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MARKETING

chain of retail outlets in the area."

As the fledgling Eastern European chain began to grow, Fore says, "we found that we needed online know-how and much more buying power." So his company teamed up with Orgill, Inc., a large, privately owned building-supplies company based in Memphis, Tenn. "The real benefit," Fore says, "was tying into Orgill's CD-ROM catalog technology that listed 70,000 items." A good portion of these catalog items are now on Star Progress' Internet site so customers in Eastern Europe and Russia can order products and pay for them electronically.

"Although we compete with Orgill in some areas," Fore says, "we teamed up in Eastern Europe because they didn't want to deal with the different cultures, government regulations, and languages."

Star Progress was able to get Orgill's products into an Eastern European market area that Orgill had not been serving. "And, for us," Fore says, "it looks like we can double our sales next year while still keeping our identity and independence."

Getting Retail Visibility

For Joel Fishkin, president of Ready Products Corp. in Orange, Conn., the problem was not expanding sales into other countries but getting shelf space in major U.S. retail chains for his Ready Brush pocket toothbrush.

"The big chains," Fishkin says, "weren't interested in my 99-cent product," which looks like a pen and contains a refillable gel supply. "They wanted a larger package." So Fishkin teamed up with OraLabs, Inc., an Englewood, Colo., company that makes Ice Drops, a minty liquid breath freshener that can be used like a mouthwash and is available in a container that can be carried in a pocket.

With OraLabs' Ice Drops on board, Fishkin teamed up with OraLine Inc., a Cortland, N.Y., company that makes mint-tasting wooden toothpicks. "I'm putting them all together in a Ready Travel Pack that will sell for around \$3—a price the chains like," Fishkin says.

Later on, he says, he might add a product made by Rxtra, Inc., in Norwalk, Conn., that combines a toothbrush and pill-bottle holder to help travelers remem-

ber to take their medicine while away from home.

The Ready Travel Pack will be sold in special wall-hanger blister cards that will display the pack's various components. The travel kit will also be sold as a portable hygiene pack that can be kept in a briefcase by businesspeople who need to freshen up between appointments.

Fishkin's Ready Brush is sold by office-supplies retailer Staples, Inc., of Westbor-

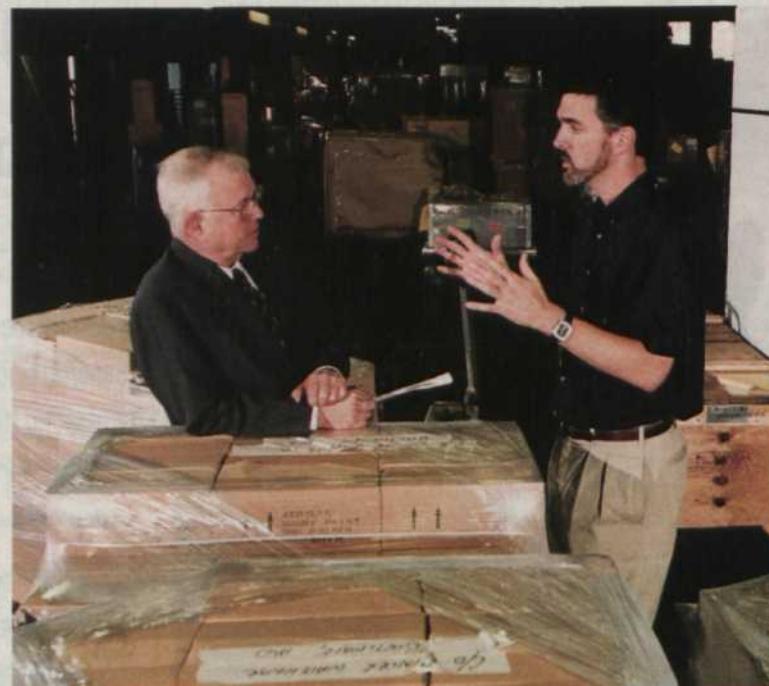


PHOTO: T. MICHAEL KEZA

To increase exports of his firm's hardware and building products, Thomas Fore, left, president of Star Progress International in Leesburg, Va., partnered with another company serving overseas markets. Here he confers on a possible joint venture with David Engel, president of Miles International, a Linthicum, Md., firm that exports plastic pipe to Poland.

ough, Mass., and Fishkin says the giant chain is interested in including his new Ready Travel Pack in stores' briefcase displays.

"Teaming up with these other small suppliers," Fishkin says, "is opening doors for shelf space and market share that only the bigger companies could normally reach." The partner companies also use one another's sales representatives interchangeably.

Moving Beyond Handshakes

Many small firms that band together to form custom companies for various projects find it more comfortable to have fairly loose contractual arrangements. Others, however, prefer partnerships and corporations in which the rules, requirements, and responsibilities are carefully spelled out.

One small-firm executive who's moving toward more-structured arrangements is

media consultant Mindy Hermann, president of The Hermann Group in Mount Kisco, N.Y. She got together with Risa Hoag, a competitor in White Plains, N.Y., to provide a Miami kitchen and home-products company with a media strategy for large trade shows. "Risa had the client connection, and I had the trade-show experience," Hermann says, "so we teamed up and will do it again with other clients."

So far, Hermann says, "there's nothing in writing, just a handshake. For our next deal and those thereafter, we're going to write up a formal partnership agreement to make sure everybody is clear about their responsibilities."

Some major clients may require liability insurance in case something goes wrong, Hermann says, and a legal agreement more formal than a simple handshake can be effective in warding off possible insurance problems.

"When you have to quickly put together some sort of legal entity, a simple partnership format can be a useful tool," says Barry Allen, executive director of Consumer Business Network, Inc., a Newport Beach, Calif., firm that puts on seminars to show small-business owners how to create "virtual companies" to expand market reach and cut costs.

"The thing about the simple partnership" as opposed to a limited-liability company or a corporation, Allen says, "is the fact that it works in every state, it's less complicated, it's economical to set up, and, if you have the forms, you don't need a lawyer."

For small businesses that want to investigate the possibility of setting up a partnership to include independent team members, Allen recommends *The Partnership Book—How to Write a Partnership Agreement*, by attorneys Denis Clifford and Ralph Warner (Nolo Press, \$34.95). The book includes tear-out forms and computer software.

Increasing Formal Ties

Although simple partnerships or even less formal prime-contractor and subcontractor relationships work for some membership groups, more-formal arrangements are required for others.

For example, six geological-mapping



PHOTO: ERKHO TON

Pocket-toothbrush maker Joel Fishkin, president of Ready Products in Orange, Conn., plans to include other firms' oral-hygiene products with his to meet some major retailers' requirements for package size and price.

companies, ranging in size from mom-and-pop firms to companies with dozens of employees, banded together under the umbrella of a Washington, D.C., limited-liability corporation, The Spatial Data Institute, to handle large government and corporate contracts.

"We wanted a central focal point that would give us the strength of a big organization and that left each member firm's dedicated management and individual skills still in place," says institute member Warren McKean, vice president of Powill, Inc., a San Francisco firm that does photography-based mapping work.

The collective clout of the Spatial Data Institute group worked wonders, McKean says, helping to bring in several contracts. One was with the Federal Emergency Management Agency to map areas of possible flooding on the East and West coasts.

Under another contract—with the U.S. Geological Survey and the U.S. Army Corps of Engineers—the firm mapped large sections of the Mississippi River for flood-control purposes.

The company also undertook a project for Raytheon Systems Co. of Lexington, Mass., to provide classified mapping work for the Defense Department's National Imagery and Mapping Agency (formed in 1996 from the Defense Mapping Agency and the Central Imagery Office).

Moving to a more formal organizational structure, says Yale's Nalebuff, not only can help small firms land contracts but also can pay dividends for the professionals who work together. For example,

Pauline Field, president of Fieldworks, a management consulting firm in Los Angeles, has developed a network of 24 small consulting firms with which she works. "We have more flexibility, added skills, and availability," Field says, "and it's much easier to pull together a crew to handle bigger jobs with tougher deadlines."

Until now, Fieldworks' project crews have worked as prime contractors and subcontractors.

"Things have grown to the point," Field says, "where we are thinking of incorporating [as an S corporation] so we can bring in some of the consultants as shareholders so they can have a say in the company and share profits."

A useful resource for companies thinking of working together under short- and long-term contractual ties is *Teaming Up*, by Paul and Sarah Edwards with Rick Benzel (Tarcher-Putnam, \$13.95). It covers all the necessary steps—from identifying trustworthy collaborators whose talents complement yours to implementing the legal arrangements.

Profits And Nonprofits

Besides joining with other for-profit companies, small firms sometimes team up

with nonprofit organizations to land big contracts.

For example, Steve Tolbert, president of Global Systems and Strategies, Inc., a Vienna, Va., systems-engineering firm, says the company "formed a partnership with the Iowa Foundation for Medical Care to go after a HCFA [federal Health Care Financing Administration] contract."

Even though the Iowa foundation is nonprofit, it competes with Tolbert's company for government health-care business.

Together, the foundation and Tolbert's firm contributed particular skills and contacts to the HCFA project, which involved setting up a standard data-processing system for use by peer-review organizations in each state to evaluate benefits provided by Medicare.

As straightforward as it may seem to bring a group of small, competing businesses together to tackle bigger projects and expand their marketing reach, it has to be done with care. Otherwise, experts say, personality conflicts and differences in working styles can lead to problems that waste time and run up costs.

"When somebody wants to join our group," says Field, "we interview them several times, and, no matter how good their résumés look, they have to fit into our culture or we can't bring them in."

Other successful cooperating-competitor groups make similar observations. Members have to be compatible almost to a fault. "With new members," says Leapfrog Solutions' Martin, "we have to get along well—or no deal."

With Rudestam's international public-relations group, ensuring a long line of successful projects involves even more than cultural compatibility.

"In our business, we have no overall, formal contract," Rudestam says. "You must be able to trust each other implicitly because if you screw up on trust, you're dead and the client doors all close against you."

One thing most custom-company collaborators do agree on is that their individuality is their most vital resource. They don't want to be drawn into any stultifying bureaucracy.

Says management consultant Field: "We really want to remain independent—it's vital."

"When somebody wants to join our group, we interview them several times, and, no matter how good their résumés look, they have to fit into our culture or we can't bring them in."

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Where I Stand

On Sexual Harassment



Earlier this year, the U.S. Supreme Court issued two decisions on sexual harassment, establishing ground rules for employees and employers. (See the Cover Story, Page 14.) These questions seek your views on this important employment-law issue.

1 Do you think it's fair that an employer can be held liable for sexual harassment by an employee even if the employer didn't know it occurred and the company had a policy against sexual harassment?

1. Yes 2. No

2 Even if no sexual-harassment complaints have been made at your company, do you think such harassment occurs there?

1. Yes 2. No

3 Does your company have a written policy on sexual harassment that outlines steps that would be taken if it occurred?

1. Yes 2. No 3. Don't know

Results of this poll will be published in the February issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636. To respond via the Internet, go to www.nbmag.com and click on "Poll."

4 Has your company cautioned employees and managers about sexual harassment, through written materials or workshops?

1. Yes 2. No 3. Don't know

5 Has an employee ever come to you with a complaint about sexual harassment?

1. Yes 2. No

6 Has your company ever been sued or taken before a government agency over alleged sexual harassment?

1. Yes 2. No 3. Don't know

7 Has your company ever had to punish or terminate an employee who engaged in sexual harassment?

1. Yes 2. No 3. Don't know

October Poll Results

On The EPA

By wide margins, respondents to a *Nation's Business* poll on the Environmental Protection Agency believe there is no intentional discrimination against minorities in the siting of industrial plants and that the EPA should not be able to deny operating permits to a plant if a few citizens

Do you think that EPA policies hinder economic development and job creation?

Always 50% Sometimes 48%
Never 2%

Should regulators be allowed to deny operating permits to a business if a few citizens living near it object?

Yes 8% No 84%
No opinion 8%

Do you think there is intentional discrimination against minorities in the selection of sites for industrial plants?

Yes 12% No 75%
No opinion 13%

Should plants that have received EPA permits be required to offer a certain number of their jobs to local residents?

Yes 29% No 64%
No opinion 7%

nearby object to the facility's location.

The Where I Stand poll, in the October issue, revealed that respondents believe the agency's policies sometimes, if not always, hinder economic development.

Here are the complete results:

Should the EPA be authorized to determine which businesses should be allowed to locate in a particular area?

Yes 10% No 86%
No opinion 4%

Should residents near historically industrial areas be allowed to sue in federal court to bar permits for facilities if they think they bear a disproportionate share of pollution?

Yes 23% No 66%
No opinion 11%

FINANCE

Innovative Spark From Uncle Sam

By Sharon Nelton

William McCann's company was a little over a year old in 1993 when it received \$40,000 through a little-known source—a federal initiative called the Small Business Innovation Research (SBIR) program. In the past five years, it has received six such awards totaling about \$900,000.

McCann, trained in music and computer science and blind since he was 6 years old, founded Dancing Dots Braille Music Technology in Upper Darby, Pa., with the intention of using computers to make music more accessible to the blind and other people with disabilities.

"What we're doing with the computer and people with disabilities is just the barest scratching of the surface of what we can do," says McCann, 40. "We're going to see amazing, wonderful things."

The SBIR program has been helping McCann make some of those things a reality. His first product, the Goodfeel Braille Music Translator, went on the market last year. A software program priced at \$795, it enables a blind person to convert a printed musical score to Braille and print it out as an embossed hard copy.

McCann, who has two full-time employees and one part-timer, says his highest-profile customer has been jazz pianist and composer Marcus Roberts. Most of his customers, he says, are middle schools and high schools in the United States and agencies and schools for the blind overseas.

McCann, who is a trumpeter, is developing a computer "music editor" program that will help blind musicians compose and arrange. McCann recalls that when he was a college music major and had to hand in written musical exercises, "I had to dictate things to people and trust that they really wrote down what I meant."

Most computer functions taken for granted by sighted musicians—such as writing a score on a computer screen or printing a composition for other players—are not accessible to the blind, says McCann.

Administered by the U.S. Small Busi-

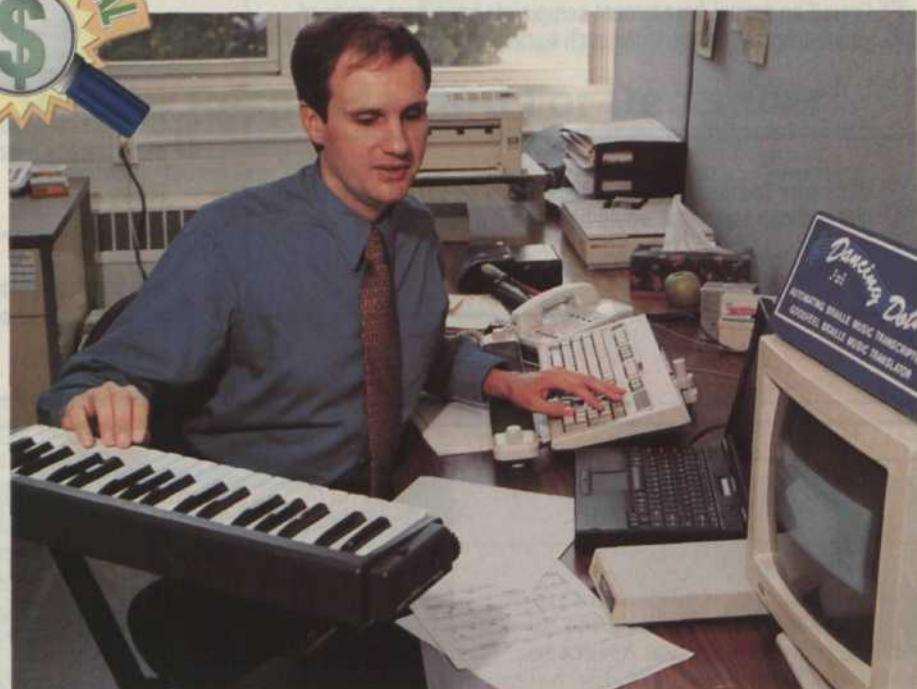
ness Administration, the SBIR program was launched 16 years ago to stimulate high-technology innovation among small businesses and to help meet the government's research and development needs.

About 5,100 awards totaling \$1.1 billion are made annually, says Daniel O. Hill, the SBA's assistant administrator for technology. The funding is provided by 10 federal departments and agencies.

A federal program provides funding for companies to help them develop new technology.

into production and take the technology to market. Though it is called Phase III, no SBIR program money is available for it.

The federal government has rights to royalty-free use of any technology developed under the program, but the company retains ownership of the intellectual property. McCann says the U.S. Department of Education, the source of his company's awards, has never exercised its right to use the technology developed by Dancing Dots.



Helped by a federal program for nurturing innovative technology, entrepreneur William McCann turns out computer products designed to make music more accessible to the blind.

Phase I awards provide up to \$100,000 over a period of up to six months and enable a company to conduct a feasibility study on an idea. Says Hill: "Phase I is really the concept stage: Does this make sense? Is this going to work?"

Entrepreneurs who complete Phase I may be eligible for Phase II awards, which provide up to \$750,000 over a period of up to two years to pursue further development of a project.

Beyond Phase II, business owners are expected to obtain funding from other government sources or the private sector to go

Lee Eiden, who oversees the Education Department's SBIR activities, says some federal departments—such as Defense and Energy—do look to make use of the technologies that are developed. But departments such as Education and Agriculture, he says, "don't tend to be the end users. We tend to support this research and encourage the awardees to commercialize it and do well with it in the market."

Rigorous Peer Review

The SBIR program is highly competitive. "Out of eight applications, only one gets an

award," says Hill. While the process for selecting award winners differs slightly from agency to agency, each requires a "rigorous peer-review process" that ranks the proposals within a specific area of research and development, says Hill. The agency program managers overseeing or using specific research and development make the final award selections according to the rankings given through the peer review. There's no cap on the number of awards or dollars a business can receive over the years.

To be eligible, a business must be an American-owned, independently operated, for-profit company with no more than 500 employees. The principal researcher must be employed by the firm.

The SBIR process works somewhat like the federal procurement process. Each agency issues solicitations, or requests for SBIR proposals, one to four times a year or throughout the year, depending on the agency's procurement cycle.

When an agency accepts a proposal, it enters into a funding agreement, or contract, with the business owner. The company does not receive the funding all at once. Dancing Dots' McCann says he sends monthly invoices to the Education Department during the life of an award. He says it takes 80 to 100 hours to prepare a polished proposal. "And you either get funded or you don't. There's no consolation prize."

If you think your company might have a shot at winning an SBIR award, keep these suggestions in mind:

■ Follow the instructions when prepa-

ring the proposal. "When they say they want 25 pages, make sure it's 25," says McCann. If your proposal is a page too long, it will not go to peer review and will be returned to you by the agency, he says. "All those procurement rules take effect. If you're going to do business with the government, you've got to get used to that," says Hill.

■ Be responsive to an agency's solicitation. "Ensure that your proposal meets the needs that they're articulating," says Hill. It's a waste of time, he says, to seek funding for a project that the agency doesn't want; you won't get the money.

■ Don't limit yourself to just one agency. Look at the solicitations from all 10 participating agencies, Hill advises. For example, if you're doing cancer research, he explains, look at solicitations from not only the Department of Health and Human Services but also the Department of Defense and the National Aeronautics and Space Administration.

■ If you need help putting together your proposal, get it. The Education Department's Eiden says state agencies often want business owners to receive SBIR awards. He suggests contacting your state's economic-development department.

The final bit of advice comes from Hill: "Be persistent." It's very difficult to get an SBIR award the first time you apply, he says. "But some of the best success stories we have in the program have come from people who have repeatedly gone back, redone their proposals, and submitted other proposals. They keep at it, and then they get in. And once you get in, then you start building on that."

NB

telephone numbers, and electronic-mail addresses are on the SBIR's Web site.

Don't hesitate to call one of these representatives. Lee Eiden, the SBIR program coordinator at the U.S. Department of Education, says he and his counterparts in the other participating agencies are eager to get the word out about the program. "Call us," he says. "We're all ready to talk."

A section of his department's Web site, at www.ed.gov/offices/OERI/SBIR, provides links to the SBIR Web pages at all the other participating agencies.

The main SBIR site and the Education Department's site can link you to related Web sites, including some that list conferences on the program or offer sample proposals.

If you don't have Internet access, you can get information on the SBIR program by writing or calling the U.S. Small Business Administration Office of Technology, 409 Third St., S.W., Washington, D.C. 20416; (202) 205-6450.

Where To Start

If you think your company is a good candidate for an award under the Small Business Innovation Research program, the best way to start exploring the possibility is to visit the program's World Wide Web site, at www.sba.gov/SBIR.

Look through the "pre-solicitation announcements" of the 10 agencies that participate in the program. "Those basically are items that the agencies have reported to us that they intend to offer as SBIR solicitations [requests for proposals] in the next fiscal year," says Daniel O. Hill, assistant administrator for technology for the U.S. Small Business Administration, which monitors and coordinates the SBIR program.

When you find an agency requesting proposals in a field where your company can be helpful, contact the SBIR representative in that agency. The agencies' addresses,

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Nation's Business

The Small Business Adviser

TECHNOLOGY

A High-Tech Edge For Home Offices

By Tim McCollum

It's a sunny morning, the water in the backyard pool is warm, and his three children are playing in the yard, but free-lance writer Jeffery Zbar has no time for relaxation. The home-business guru has been hard at work at the computer in his Coral Springs, Fla., home since before dawn, straining to meet an afternoon deadline.

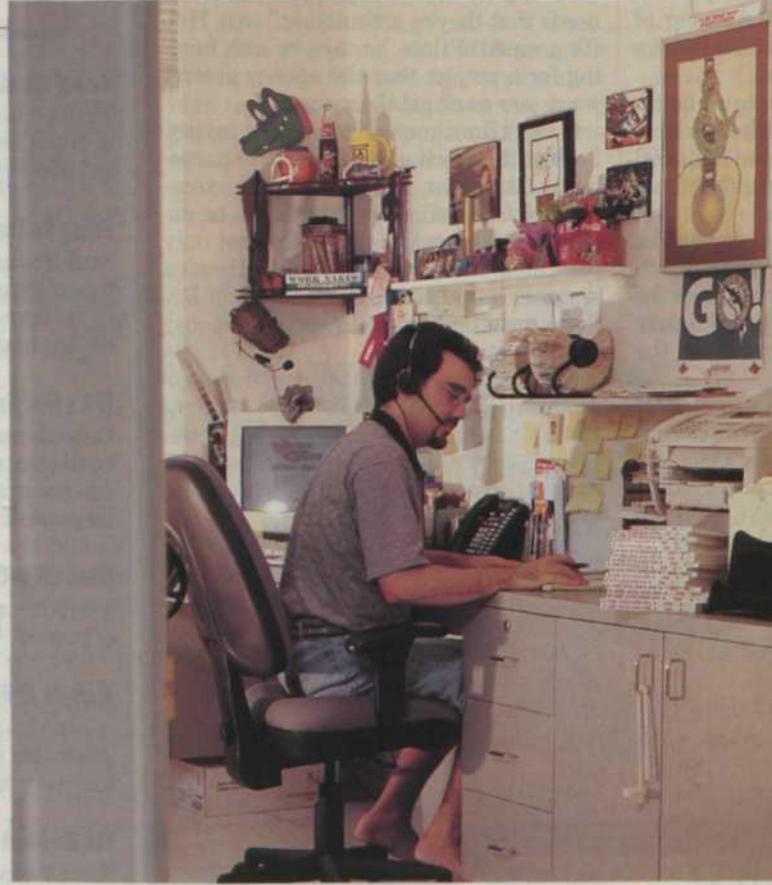
Although technology may not make home-based work fun, it has made the home-office lifestyle commonplace in America. According to IDC/Link, a research firm in Framingham, Mass., there are 24 million home-based businesses in the United States and an additional 11 million Americans are telecommuters—working at least partly at home.

Technology also can make it possible for entrepreneurs and employees alike to make a "seamless transition" from a traditional business setting to a home office, says Zbar, author of *Home Business Know-How* (Upstart Publishing, \$12.95).

The center of Zbar's home office is a desk custom-built to accommodate his phone, fax machine, and personal computer, which he can use to connect to the Internet.

Because his home office has two phone lines, Zbar can talk on the phone while sending or receiving a fax or connecting to the Internet. Once connected, he can retrieve electronic mail, do research for his writing projects, or upload information to his own World Wide Web site, Goin' Soho (wwwagoinsohocom).

To keep in touch with clients and sources in a professional manner, Zbar subscribes to technology-based phone services such as voice mail and caller ID from his local phone company, BellSouth Corp. in Atlanta.



Technology can ease the transition from a traditional business setting to a home office, says author Jeffery Zbar, working at home in Coral Springs, Fla.

Spending For Quality

Telecommunications is the most empowering technology available to home-based businesses and telecommuters, according to home-office experts such as Zbar, so it's not a place to cut corners. At a minimum, a well-connected home office must have a phone and a fax machine—and separate lines for each.

A good phone for business use should have features such as a speaker and speed dialing, and it will cost at least \$50. Cordless phones incorporating the latest technology start at about \$100, and these devices are worth considering because they enable the user to place or receive calls anywhere in the home.

Fax machines range in price from about \$150 for basic models to nearly \$1,000 for models that also can be used for copying,

Today's telecommunications and computer products and services can provide a wealth of benefits for home-based business owners.

printing, and scanning documents.

Local phone companies typically offer a wide but potentially confusing array of service choices.

For starters, there's the question of whether to order business or residential phone lines. A business line includes a listing in the local business telephone directory and Yellow Pages. If that's not necessary, however, a residential line should be sufficient and could save as much as half from the cost of a business line.

A person setting up a home office should also consider advanced calling services, available through the phone company or third-party suppliers.

Many such services are well worth the cost, experts say, because they can increase a home office's communications capabilities while also enhancing its professional image among its customers.

Zbar says voice mail is the most important add-on service because it helps the

subscriber avoid missing important calls while on the phone or away from the home office. And he says voice mail generally sounds more professional than an answering-machine message.

Other advanced phone services that can be beneficial for a home-based business include call waiting, which provides a way to juggle multiple incoming calls; caller ID, which is useful for identifying caller numbers to decide which calls rate immediate attention; and conference calling, which facilitates conversations among people in multiple locations.

In addition, call forwarding enables home-office workers to redirect incoming calls to other phone numbers—such as a wireless phone. That feature can be important to consultants and others who often work at client sites.

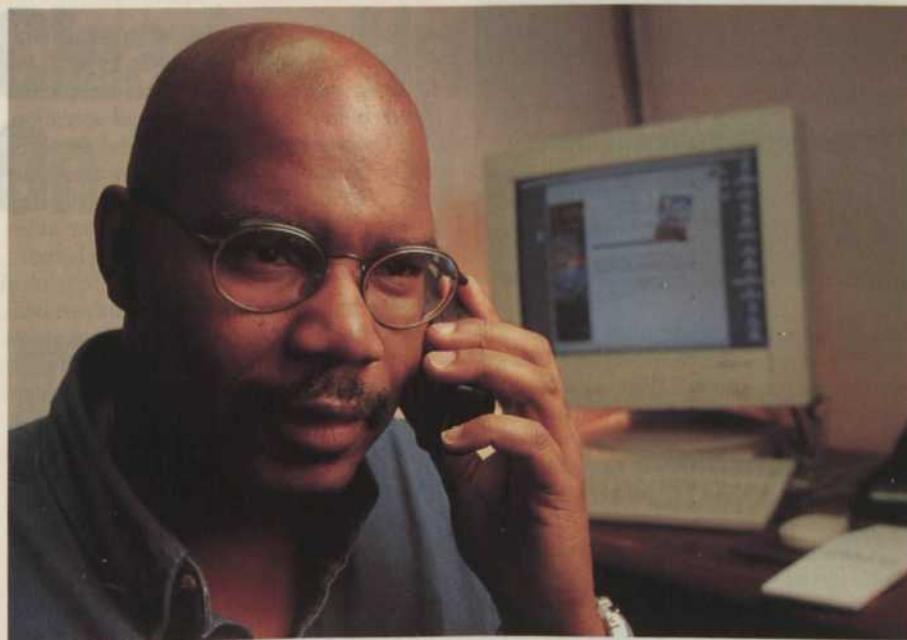


PHOTO: ©TODD BUCHANAN

Retrieving voice-mail messages, faxes, and electronic mail involves just one service, Webley from Webley Systems Inc., for World Wide Web consultant Floyd Webb of Oak Park, Ill.

Versatile Message Services

Some new message services combine voice mail with fax and e-mail capabilities. These services store messages of any type in a single mailbox that the subscriber can access via any telephone.

Web consultant Floyd Webb of E22 Digital in Oak Park, Ill., has turned to such a

"futuristic" answering service in an effort to keep up with his clients' needs. The service, called Webley, is from Chicago-based Webley Systems Inc.

When clients need to reach Webb, they call E22's toll-free number, which is monitored by Webley's automated attendant. The attendant routes the call to a phone

number designated by Webb or to voice mail if he's unavailable. The Webley service also allows Webb to forward incoming e-mail and faxes to wherever he is working.

The prices of enhanced phone services vary widely, so it pays to devote adequate time to shopping around.

Computer Wizardry

PCs, too, are essential tools in today's home offices, and during the year most major vendors have released new products designed with this market segment in mind. Many of the products cost less than \$1,000, yet they possess capabilities—a modem, sound card, and voice microphone, for example—that make it easy for home-office users to tap into the Internet as well as private networks.

When connected to a phone line, such PCs also can answer incoming calls, take messages, and allow the user to make outgoing calls without picking up the phone. TalkWorks Pro software from Symantec Corp. in Cupertino, Calif., extends these capabilities, enabling users to manage voice and fax messages stored on PCs. Users also can track fax and e-mail messages using contact-management software such as GoldMine from GoldMine Software Corp. in Pacific Palisades, Calif., Outlook from Microsoft Corp. in Redmond, Wash., and TeleMagic from Sage U.S. Inc. in Dallas.

Remote-access hardware and software allow home-based users to tap resources on their clients' or employers' office net-

Setting Up A Network At Home

Nearly 20 million U.S. households have two or more personal computers, according to Intel Corp. in Santa Clara, Calif., the maker of the Pentium processor. Intel based its estimate on figures from Dataquest, a research firm in San Jose, Calif.

But just because a household has more than one PC doesn't necessarily mean it also has multiple printers, modems, and other peripherals. Instead, home-based workers and their families can share these devices using networking technology.

For example, people can network their homes by using the Ethernet technology long deployed in office buildings. At a minimum, what's needed are a PC operating system that supports networking, Ethernet-compatible cables for connecting the PCs, and computers equipped with network cards. Fortunately, many computers are available with network cards already installed, and both the Macintosh and Windows operating systems support this simple "peer-to-peer" style of networking.

The more adventurous and technically minded can install special-purpose networking software—Microsoft Windows NT and Novell NetWare are the most common brands—on a computer that will act as a server and then link their other PCs to this server rather than to one another. Ethernet networks of this type are generally more effective, but they also are more complex and costly.

In addition, a new breed of home-oriented networks is emerging. For example, Intelogis Inc. in American Fork, Utah, has developed a networking system that transports data across the electrical wiring of a home. The system, called Passport, consists of devices that are plugged into an electrical outlet and are attached to a computer or a printer.

Although Passport's data-transfer rate is slower than that of Ethernet networks, it is about six times faster than the rate achievable using today's fastest modems. A Passport pack of two PC adapters, one

printer adapter, and the required software retails for \$199.99.

With HomeRun from Tut Systems Inc. in Pleasant Hill, Calif., PCs can be connected through a home's phone wiring. HomeRun consists of an internal network card or an external adapter that connects a PC or a printer to a phone jack. The system transfers data more quickly than the Passport system and allows users to make voice calls while they are working on the network. HomeRun retails for \$159.

On the voice-networking front, Siemens Business Communication Systems Inc. in Richardson, Texas, has developed a cordless-phone system that provides multiple-user voice communications. The Cordless Communication System, which retails for \$399, has a desktop base station and answering system that supports up to four cordless phones and two phone lines.

The Cordless Communication System provides separate extensions, voice-mail boxes, and even separate phone numbers for each user. Moreover, users can call each other internally and transfer calls to any phone on the system.

TECHNOLOGY

works. For example, the networking capabilities built into Microsoft's Windows 95 and Windows 98 operating systems facilitate access of files stored on remote computer networks. Products such as PCAnywhere from Symantec and LapLink from Traveling Software Inc. in Bothell, Wash., make accessing remote networks easier still.

Technologies such as Lotus Notes from IBM Corp. in Armonk, N.Y., allow home-based business owners and telecommuters to communicate and collaborate. And new networking products allow users to quickly and easily link multiple home-office and home PCs to share files, modems, and printers. (See "Setting Up A Network At Home," on Page 53.)

Tapping The Internet

These days, a connection to the Internet is another home-office essential: E-mail is arguably the most efficient channel of business-to-business communication, while the Web provides home-based business users with access to a wide variety of information.

Internet access is inexpensive now as a result of the fierce competition among Internet service providers (ISPs), local and long-distance phone companies, and on-

Thanks to the Web's global scope, home-based businesses can market their products to people worldwide.

line services such as America Online. For about \$20 a month, a subscriber can get unlimited access to the Web, an e-mail address, and generally storage space for a personal Web home page.

The Web also is creating marketing opportunities for home businesses, says Mel Cook, author of *Home Business Big Business* (Macmillan, \$14.95). Thanks to the Web's global scope, home-based businesses can market their products to people worldwide. This has made them more respectable in the eyes of suppliers and distributors, says Cook. "Thus, more and more, established companies are facilitating orders for people who work at home," he says. "So if you can set up a good information site that people go to, you can set up a big business in a small office and let these outside distributors fulfill the orders."

Publishing a Web page to advertise and sell products can cost as little as \$200 for software and setup costs plus about \$20 a month in hosting fees for a small operation, says Cook, who practices what he preaches at his Web site (members.aol.com/homebigbus). Visitors to the site can buy Cook's book online and follow links to other information on running a business from home.

Technology can provide immense benefits to home-office workers, but it's easy to get caught up in high-tech hype and purchase more than is necessary, cautions home-office expert Zbar. For example, he says, some home-based entrepreneurs believe they must continually upgrade to the most powerful equipment available to achieve maximum productivity. In reality, Zbar says, they often could do just as well with the less powerful PC and programs they already own.

On the other hand, home-based business owners should not make the mistake of scrimping when buying necessities such as phone service. "A lot of people who work at home get caught up in nickel-and-dime things," Zbar says. "You need to look at what you are going to gain. You have to be willing to spend a little to allow your company to grow."

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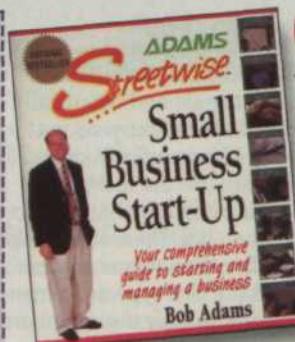
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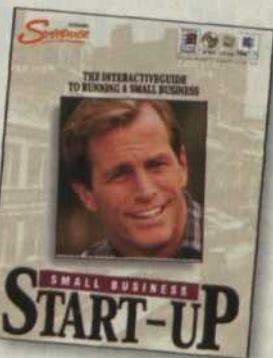
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Clearing Up Confusion On Hiring The Disabled

By John M. Williams

Employers who consider hiring people with disabilities often are reluctant to do so because they are not clear on federal laws regarding the disabled, on assistive-technology devices that enable people with disabilities to be productive, and on other matters. In last month's issue, Nation's Business answered some of the questions most frequently asked by employers regarding hiring people with disabilities. Here are some more common questions and answers:

Q. Can I get help in training a disabled person I have hired or am considering hiring?

A. Yes. There are many ways to get help in training a disabled person. Employers can contact local organizations that work with disabled people. They can contact state vocational-rehabilitation offices, occupational and physical therapists, and manufacturers of assistive-technology products. In addition, disabled people you are considering hiring might know where to get help with training.

Q. Where can I find technical assistance on the Americans with Disabilities Act (ADA) and job accommodations for people with disabilities?

A. The Job Accommodation Network (JAN), a service of the President's Committee on Employment of People with Disabilities (PCEPD), is a valuable source of assistance in this area.

JAN is a free telephone resource for employers, service providers, disabled people, rehabilitation counselors, and others involved in helping disabled people obtain jobs who have questions about the employment sections of the ADA or about job

accommodations for the disabled. Consultants respond to questions, discuss specific accommodations, and suggest additional resources. For questions about the ADA, call 1-800-232-9675. For questions about job accommodations for the disabled, call 1-800-526-7234.

The Alliance for Technology Access is another valuable resource. It is a network of assistive-technology resource centers and technology developers working to improve the quality of life for people with disabilities through access to assistive technology. For information, write to the alliance at 2175 E. Francisco Blvd., Suite L, San Rafael, Calif. 94901-5524. The phone number is (415) 455-4575. The alliance's World Wide Web site is at www.access.org.

Q. Where can I find information on the number of ADA-related cases that have been won by employers?

A. Employers can contact their state or local chamber of commerce, their regional Equal Employment Opportunity Commission office (the phone number for the EEOC's headquarters is 1-800-669-4000), the U.S. Department of Justice's ADA office (202-514-0301), and law firms that specialize in employer-employee relations.

Q. Is there an interconnection between the Family Medical Leave Act (FMLA) and the ADA, and do the

two laws have an impact on a disabled employee's work attendance?

A. One of the biggest issues employers struggle with is the impact the FMLA and the ADA have on each other in the workplace. Employers often do not know the differences between the two laws, such as to whom the laws apply, when each law can be used by an employee, how the laws support each other, definitions under each law, leave time offered under each law, and employees' rights to job reinstatement under the laws.

The FMLA, enacted on Feb. 5, 1993, entitles employees to 12 weeks of unpaid leave in a 12-month period for the birth, adoption, or foster-care placement of a child; to care for a child, spouse, or parent who has a serious health condition; or for an employee's own serious health condition. FMLA coverage extends to employees of businesses or organizations with 50 or more employees. The employee must have worked at the company or organization for at least one year and at least 1,250 hours in that year.

ADA coverage extends to employees who work for a private employer with at least 15 workers or for a state or local government agency and who meet the ADA definition of disability.

Under the FMLA, a serious health condition is an illness, injury, impairment, or physical or mental condition requiring inpatient care or continuing treatment by a health-care provider. Under the ADA, a person is disabled if he or she has an impairment that substantially limits one or more major life activities (such as walking or seeing), has a record of such an impairment, or is regarded as having an impairment.

A serious health condition as defined by the FMLA is not necessarily a disability. However, some serious conditions might be considered disabilities. If an employee is dealing with substantial limitation related to cancer, for example, the person might be covered under both the ADA and the FMLA.

Under the FMLA, the leave can be taken consecutively, intermittently, or on a reduced work schedule. Once the 12

John Williams is president of Technical Communications, Inc., a publishing and consulting company in Sterling, Va., that focuses on disability issues. The company publishes Assistive Technology News, a tabloid newspaper that informs readers of a wide range of assistive-technology products that can benefit disabled people.



If you're hesitant to hire a disabled person because you have questions about federal laws and other matters, these answers should help.



PHOTO ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

weeks are exhausted, the employer is not obligated to provide additional leave under the law.

Under the ADA, an employee may be entitled to a period of leave determined by the employer and employee. The leave may be provided unless it poses an undue hardship on the employer. An undue hardship, as defined by the ADA, is any action that requires significant difficulty or expense when considered in light of the nature and cost of the accommodation, the overall financial resources of the facility or facilities, the overall financial resources of the employer, and the type of operation or operations of the employer, including the composition, structure, and functions of the workplace.

An employer is not required to provide additional leave to an employee who has exhausted leave under the FMLA. FMLA leave can be used to care for a seriously ill

family member. Under the ADA, the employee can use leave only in connection with his or her own limitations.

The issue of an employee's rights to job reinstatement under both laws has led to confusion among employers. Under the FMLA, an employee is entitled to return to the original position or an equivalent position upon completion of the leave period. If an employee can't return to work when the leave time is completed, the employer is not required to hold the position open. The employer may provide additional leave as an ADA accommodation.

If leave is provided under the ADA, an employee is entitled to return to the original position unless the employer is unable to hold the position open because of undue hardship.

If an employer can't hold the position open, the employer might have to consider

the employee for a vacant position. If an equivalent position is not available, the employer can look to a lower-level position. If such a position is not available, the employer does not have an obligation to accommodate the person.

Individuals filing a complaint under the FMLA can contact the Wage and Hour Division of the U.S. Department of Labor. Complainants or employers can call (202) 693-0066 for assistance.

Technology Questions

Assistive technology is changing the workplace for disabled people. Today's products enable disabled employees to compete in the job market.

Some products provide speech so that blind and visually impaired workers can have access to information they can't see. Other products enlarge print so that visu-

ally impaired workers can read it. Text-to-speech products give voice to people with speech impairments.

The Telecommunications Device for the Deaf (TDD) gives deaf and hearing-impaired people access to information they can't hear. A TDD is a typewriter-like machine through which telephone conversations are transmitted and received as text instead of sound.

People who can't use their hands can communicate and perform work functions through eye-gaze technology. The disabled person wears an infrared-light pointer to select letters, numbers, or functions such as spell check on a keyboard or monitor. Eye-gaze technology enables people with disabilities to write, draw, program, do math, or dial phone numbers.

Advances in wheelchairs have given people more mobility. Through prosthetics, people can replace lost limbs. New software has helped the mentally challenged learn to read and write.

Assistive-technology products can reduce or eliminate barriers that in the past prevented disabled people from working. Here are some common questions from employers regarding such products:

Q. How valuable is assistive technology in enabling people with disabilities to work?

A. Assistive-technology products are the great equalizers for workers with disabilities.

Such products help provide an opportunity to work for people who are blind or visually impaired, deaf or hard of hearing, speech-challenged, mentally challenged, mobility-challenged, or manually challenged, including amputees.

Because of these products, more disabled people are employed today than ever before. The number of such employees will grow as the products become more available and accessible.

Q. I am an employer interested in hiring a disabled person. Should I purchase assistive-technology equipment, or are there other options available for obtaining it?

A. Employers generally purchase the equipment for disabled employees. Some state vocational-rehabilitation programs and some insurance companies buy assistive technology for disabled workers.

Some foundations and nonprofit organizations will purchase the equipment under certain circumstances. The Lions Club, for example, sometimes buys products for blind and visually impaired workers.

To find out if your state's vocational-re-

habilitation program purchases equipment, contact the office of vocational rehabilitation in your area. Governors' offices for employment of people with disabilities also can tell employers where they might be able to get financial assistance for such purchases.

Q. Where can I find the technology I need to employ a disabled person?

A. There are many places to see the products that help people with disabilities in their jobs. You can contact your local vocational-rehabilitation center, rehabilitation hospital, or veterans hospital. Agencies and organizations representing the various disabilities have information on these products. They keep a list of manufacturers, and the manufacturers attend the organizations' annual conferences.

More than two dozen conferences that deal with assistive-technology issues are held annually. For information on some of these conferences call: the Alliance for Technology Access (415-455-4575); the American Council for the Blind (202-467-5081); the American Foundation for the Blind (212-502-7652); the American Occupational Therapy Association (301-652-2682); the American Speech Language Hearing Association (301-897-5700); Disabled Sports USA (301-217-0960); the Job Ac-

commodation Network (1-800-526-7234); the Rehabilitation Engineering and Assistive Technology Society of North America (703-524-6686); Self Help for Hard of Hearing People (301-657-2248); and Telecommunications for the Deaf, Inc. (301-589-3786).

Technical Communications, Inc., a publishing and consulting company in Sterling, Va., that focuses on disability issues, has a database that lists the names, addresses, telephone numbers, and World Wide Web addresses of manufacturers of assistive-technology products, along with descriptions of the manufacturers' product specialties. The list is available for \$350. Write to TCI/List of AT Manufacturers, 19 Crescent Court, Sterling, Va. 20164, or contact the company by electronic mail at jmmaw@aol.com.

Q. Can people with disabilities be productive? If so, how?

A. People with disabilities are productive in a wide range of careers. There are disabled people who are accountants, cashiers, computer programmers, judges, lawmakers, lawyers, managers, orchestra conductors, presidents and CEOs of companies, researchers, scientists, software developers, teachers, telephone operators, and writers.

What people with disabilities need to do the job correctly and productively are the right technology and other resources.

Here are some examples of the ways that technology and human assistance might help improve productivity for disabled workers:

■ Blind and visually impaired people can be more productive by using text-to-speech products, low-vision products, and Braille or by working with an assistant.

■ Hard-of-hearing and deaf people can be more productive by using specialized computer software and hardware and a TDD or by working with an interpreter.

■ Speech-challenged people can be more productive by using various speech aids and specialized computer software and hardware or by working with an assistant.

Q. Is it true that providing reasonable accommodations for a disabled employee is expensive? How much must I spend to provide reasonable accommodations? Am I required under the ADA to spend a lot of money?

A. Under the ADA, employers are required to accommodate the known physical and mental limitations of otherwise qualified disabled applicants and employees unless it can be demonstrated that

Assistive-technology products are the great equalizers for workers with disabilities. Because of these products, more disabled people are employed today than ever before.

The number of such employees will grow as the products become more available.



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MANAGING

such an accommodation would be unreasonable or impose an undue financial hardship on the employer. So it is a misconception that the ADA mandates that an employer must spend whatever is necessary to accommodate a disabled employee. Accommodations can cost anywhere from \$10 for a special lamp, for example, to thousands of dollars for a computer. When providing an accommodation for a disabled person, employers should think of it as a capital investment, just as they would think of office renovations for able-bodied employees.

Q. Do I have to buy a lot of products to provide accommodations to a disabled employee?

A. No. The employer must provide the disabled employee only with the essential tools to do the job. That might mean only a special lamp or a text-to-speech keyboard.

Q. Can I get help in selecting products to buy for disabled employees?

A. Yes. Besides the advice of the disabled employee, you can get help from the various organizations representing the disabled as well as from manufacturers.

When you buy a product, be sure you also pay for the training required to teach the disabled employee how to use it.

It's a good idea to have a nondisabled person trained along with the employee with a disability; that person then can train any future disabled employees.

Technical Communications, Inc., has helped hundreds of companies select products for disabled employees.

Q. If I buy a product for a disabled employee, will I need to buy another one to replace it in six months or a year?

A. When you buy a product for a disabled employee, make sure you also buy any accessories that may be needed in the future. As with products for nondisabled employees, you may have to upgrade the product in six months to a year.

When you buy an assistive-technology product, be sure you also pay for the training required to teach the disabled employee how to use it.



Q. Can a blind or visually impaired person access the World Wide Web?

A. Yes. Internet access can be an asset to blind and visually impaired people. A wide variety of products are available to provide Internet access.

One is a software product called pwWeb-Speak, from The Productivity Works, Inc., in Trenton, N.J. It is a Web browser that translates the information on Web pages into speech and visual presentation with variable text sizes. The manufacturer's phone number is (609) 984-8044.

Another company, Henter-Joyce, Inc., in St. Petersburg, Fla., has developed software that enables blind and visually impaired people to browse the Web, read and write e-mail, use spreadsheets, and access database information. The company can be reached at 1-800-336-5658.

Corrections

The first installment of this two-part series, "Getting Answers On Hiring The Disabled," in the November issue, contained some inaccuracies.

The President's Committee on Employment of People with Disabilities (PCEPD) does not operate a network of regional technology centers. However, the U.S. Department of Education funds disability and business technical-assistance centers that provide help on the Americans with Disabilities Act. There is a center in each of the 10 federal regions; to find the center in your region, call 1-800-949-4232.

The work-force recruitment program referred to in the article is operated by the PCEPD, not by its Job Accommodation Network (JAN) service. The program provides to employers a free database of disabled college students and recent graduates who are job candidates. To receive the database, employers should fax their request on company letterhead to 202-376-6868.

JAN was incorrectly listed as the source of statistics showing that disabled employees are out sick less than nondisabled employees. The statistics are from a study by E.I. du Pont de Nemours & Co.

Family Business

Recapping an era of unimagined changes; managing a father-to-daughter transition of leadership.

OBSERVATIONS

An Ever-Emerging Frontier

By Sharon Nelson

As 1998 draws to a close, I've been thinking about the changes that have occurred in the family-business field since I started writing about family firms 15 years ago.

I felt like I was in a new frontier of journalism back in 1983. About the only media coverage family businesses got at the time were the scandal stories—the tales of bitter fights between fathers and sons or brothers who had the audacity to be in business together. I had come from a business-owning family, and my family had its own share of angst, to be sure.

Perhaps the difficulties in my family led to my fascination with writing about family businesses. It became my hope—and finally my conviction—that I could use words to help educate families so that being in business together could be a more satisfying experience for family members and so that the businesses themselves could be more successful.

Others led the way for me—consultant Léon A. Danco, the “grandfather,” if you will, of family-business consulting, followed closely by David Bork. Soon there were other leaders in the field, among them John L. Ward, Ivan Lansberg, Patricia Frishkoff, and the late Barbara S. Hollander.

There might have been one or two family-business centers at U.S. universities when I began writing about family firms. Now there are more than 100 around the country educating thousands of families about family-business ownership and leadership.

Once, it was hard to find more than six or seven books about family business—and most of them were written by Danco. Today, my shelves are bulging with books on the topic.

At least one magazine is devoted to the subject, and others, among them *Nation's Business*, regularly feature articles on family business.

Seminars, audiotapes, newsletters, and videotapes for family firms are widely available as well.



In the early 1980s, family-business research was hard to come by. To some extent, it still is. But today we have the *Family Business Review*, a quarterly journal published by the Family Firm Institute. It is a publication that stimulates research in academic institutions and among practitioners who work with family firms.

Every few years, Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, and Arthur Andersen & Co. produce a survey on thousands of family businesses. Last year the Family Firm Institute Research and Education Foundation was launched to encourage still more research.

And, of course, there are changes among family businesses themselves. In 1983, family firms traditionally were handed down from father to son—usually the oldest son.

Today, more and more daughters are being considered for family-business inheritance and leadership, and there is a rise in teams of siblings and cousin groups taking over family companies.

Business-owning families seem to be more willing to describe their companies as family businesses now. They understand, more than they once did, that family ownership can be an asset, that it suggests solid values, quality, stability, and good citizenship within a community. Not every family business, after all, is plagued by scandal.

Yes, the family-business field and family firms themselves have undergone considerable change in a decade and a half. Who even heard of the Internet or the World Wide Web in 1983? We were still using typewriters at *Nation's Business* then and making editing changes in pencil. But this year one of my stories told how family businesses are using Web sites to market products and services.

If 15 years can bring about this much change in the family-business arena, what will the next 15 bring?

I'll be watching.

MARK YOUR CALENDAR

Dec. 3, Oshkosh, Wis.

“Compensating Family and Nonfamily Employees in a Family Business” is a morning workshop covering topics such as fairness and equity, creative ways to compensate, and policies and procedures for compensation management. For further information, contact Sue Schierstedt of the Wisconsin Family Business Forum at the University of Wisconsin-Oshkosh; (920) 424-2257.

Dec. 7-8, New York City

The two-day “Board Symposium on Successful Family Businesses” offers an intensive look at the roles of chief executives, directors, and shareholders. Contact the National Association of Corporate Directors; (202) 775-0509.

Dec. 8, Westport, Conn.

“Families and Money: Values and Lessons About Earning It, Using It, and Giving It Away” is a morning seminar featuring discussions of wealth and philanthropy in business-owning families. The seminar is to be repeated in the evening in New Haven, Conn. Call the University of New Haven Center for Family Business; (203) 932-7421.

Dec. 9, Holyoke, Mass.

“The Seven Toolboxes of Creativity” shows family-business members how to inject fun and energy into the process of solving tough problems. For more information, call Ira Bryck of the Family Business Center at the University of Massachusetts at Amherst; (413) 545-1537.

Feb. 5-7, Chicago

The “Family Business Communications Institute,” a three-weekend series, teaches family members how to facilitate their own family meetings. For additional dates and information, call Sharon Krone at the Loyola University Chicago Family Business Center; (312) 915-6490.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

Case Study: Readyng A Successor To Lead

Karl is the owner and president of a large plumbing distributorship. He has been running the company, Tradesmen's Supply, since before his father's death more than 20 years ago. After a long and profitable career, he has saved enough money to retire. Six years ago, on his 55th birthday, he brought his daughter, Pat, now 36, into the company with the thought of grooming a successor.

Pat, who joined Tradesmen's Supply after getting some outside experience and one year after her twins were born, has served the company in several capacities, including a few high-profile middle-man-

agement positions. She is called on increasingly to be a key adviser to Karl and, when it comes to strategic planning, is considered part of senior management.

Karl wants to leave the company grind within two years, and Pat wants to assume the top spot—but only if she's ready. She's reluctant to move up without all the tools in hand and wants to put the company before her personal career objectives.

Her father is concerned that Pat is not quite experienced enough to run Tradesmen's Supply, although he is confident that someday she will be capable of doing so. Karl is considering recruiting and training a replacement for himself until Pat is ready. Pat, however, thinks no one would accept a top position in the firm for a two-year tenure and is worried that she could get passed over for that spot indefinitely.

Pat needs to get ready. Karl wants to plan for his exit. And while Pat's career goals are an important issue, she and her father are asking, "What is best for the family business?"

Response 1

Do It Yourself, Dad

Karl and Pat are three-quarters of the way to their goal. There are several ways they can finish the job.

In spite of Pat's fears, Karl's idea of recruiting and training a replacement is one possibility. An interim outsider might be willing to run the company for a few years and train a replacement as long as the expectations, time frames, and remuneration for a job well done are clear.

This person would need to be compensated not only for running the company but also for grooming Pat

successfully and for managing an orderly transition to her within a given time frame. Whether the interim leader would remain in the company after Pat takes over would have to be determined in advance.

My preference, however, is for Karl himself to finish Pat's grooming. He and Pat have done most of what they need to do. Pat obtained outside experience, has children who are now school-age, has worked in middle management, and has been privy to executive decision-making as an adviser to Karl.

With six years of training behind them and with two more years until his planned retirement, it seems that there is plenty of time for Karl to finish helping Pat obtain the skills and experience necessary. This is particularly so if father and daughter assess the skills and experiences that are lacking and develop a plan of training, and are assisted in these processes by a consultant/coach.

There is no one better to help Pat than Karl. Further, he can remain as a part-time adviser for a period if Pat requires it. There is no greater satisfaction than that which comes from having taught your willing and able daughter to take over the family firm.



ILLUSTRATION: TROY THOMAS



Sergio Pirrotta, a psychologist and senior partner at Ki Associates, an organizational consulting firm in Portsmouth, N.H.

Response 2

Develop A Plan

When Pat says she might not be ready, who's really talking? Do Dad's messages influence his daughter because he's not ready to give up his babies—his business and his daughter? Does she fear that doing things differently could be seen as a betrayal? Both want what's best for the firm, yet each wonders: "Will my own needs be met?"

Karl and Pat know how to plan for the business. Now they need to develop a continuity plan of two to five years, assessing their individual goals and charting a course to balance and integrate

personal needs, family requirements, dynastic intentions, ownership change, and wealth preservation with business direction.

Father and daughter need to discuss a number of issues: How will their relationship to each other and to the business change? What will foster their co-existence as partners? What do they value in each other's contributions and decisions? They need to be aware of and supportive of each other's changing roles, goals, and identity: Karl's retiring and letting go, and Pat's moving from a position of deference to peer decision-making.

Karl and Pat should establish an independent transition team to help with issues. What aspirations and talents does Pat have, and



Aron R. Pervin, head of Pervin & Co., a family-business advisory firm in Toronto

what should she develop? This peer team, perhaps with someone hired for a fixed period to operate the firm, will help assess what is realistic and will mentor Pat to achieve the lead role in the firm.

During the transition, the father-daughter team should review governance systems and choose an organizational design for the family, the firm, and the shareholder(s) that maintains clear accountability, roles, communication, and boundary management for effective decision-making.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Boston. You can comment on this case study on the World Wide Web at www ffi.org/forums.html.

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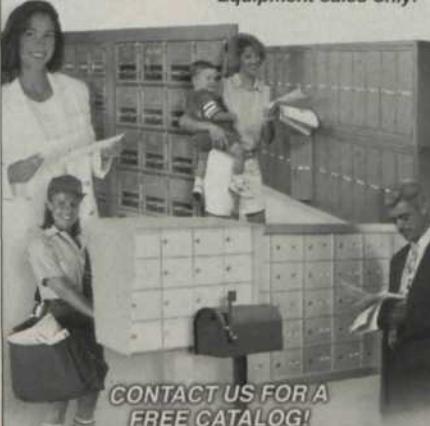
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Making It

Growing businesses share their experiences in creating and marketing new products and services.

Milking A Golden Opportunity

By Robert Kiener

The telephone call from a Vermont chef was straightforward: "I need some goat cheese." It was a call that "changed our lives," says Robert A. Reese as he and Allison R. Hooper show a visitor through their 15,000-square-foot Vermont Butter and Cheese Co. headquarters in Websterville, Vt.

The call came to Reese in 1984 when he was director of development for the Vermont Department of Agriculture, responsible for helping local farmers market their specialties. "A European-trained chef in Stowe needed fresh goat-milk cheese for a special dinner," says Reese. "He called me out of desperation."

Luckily, Reese knew just whom to call.

Hooper, a co-worker at the Agriculture Department, had moved to Vermont to recapture "the simplicity and purity of cheese-making" that she had experienced the summer she worked on a small organic farm in France as part of her studies at Connecticut College. She also had a part-time job managing a private herd of 60 goats.

Hooper made a small batch of the cheese, called chevre, and the Vermont chef raved: "The best I've ever had." His customers raved too. Everyone wanted more.

Hooper and Reese smelled an opportunity. "Both of us had long dreamt of working for ourselves," says Reese. A few months later, Reese—to his wife's horror—quit his secure government job. With an initial investment of \$2,000, he and Hooper formed the Vermont Butter and Cheese Co.

They never looked back. The company has grown 25 to 30 percent a year, with annual sales rising from just \$16,000 in 1985 to an expected \$3.2 million this year. Reese, executive vice president, and Hooper, president, have carved out a niche in the specialty-food market, selling 34 varieties of cheeses to restaurants, hotels, and gourmet

of the Year by the U.S. Small Business Administration.

The main secret of their success? "Timing," they reply together. "I'd love to say we planned it all, but we were very lucky," says Hooper. "We had the right product at the right time." In the mid-1980s, travel-savvy consumers were clamoring for gourmet cheeses, especially the types that many of them had discovered while traveling in Europe. Also, goat cheese was becoming known as a healthful, tasty, and versatile alternative to cow's-milk cheeses.

Hooper and Reese put in 80-hour weeks manufacturing and distributing their

cheeses. Twice a week Hooper would jump in a battered old pickup and crisscross Vermont, picking up about 50 gallons of goat's milk from small "hobby" herds.

Reese plied a 250-mile route on the back roads of Vermont, selling their goat cheese, some cow's-milk cheeses, cultured butter (a specialty butter with higher butterfat content than standard U.S. butter), and crème fraîche (a French-style thickened cream, somewhat like sour cream) to shops and restaurants.

"Everyone loved our cheeses," says Reese. "But we knew that to succeed we had to find a way to expand the business without losing our quality."

In 1986, when the Bread and Circus chain of health-food stores urgently called for a re-supply of goat cheese one weekend, Reese says, "I knew I couldn't continue driving three hours to Boston to service this client. I asked them: 'Who do you want to buy our cheeses from?' They named a regional specialty-foods distributor, and

we enlisted their help."

Over the years, Hooper and Reese have continued the practice of signing up regional distributors recommended by their clients, thereby relieving a lot of distribution headaches and leaving the partners free to concentrate on developing new

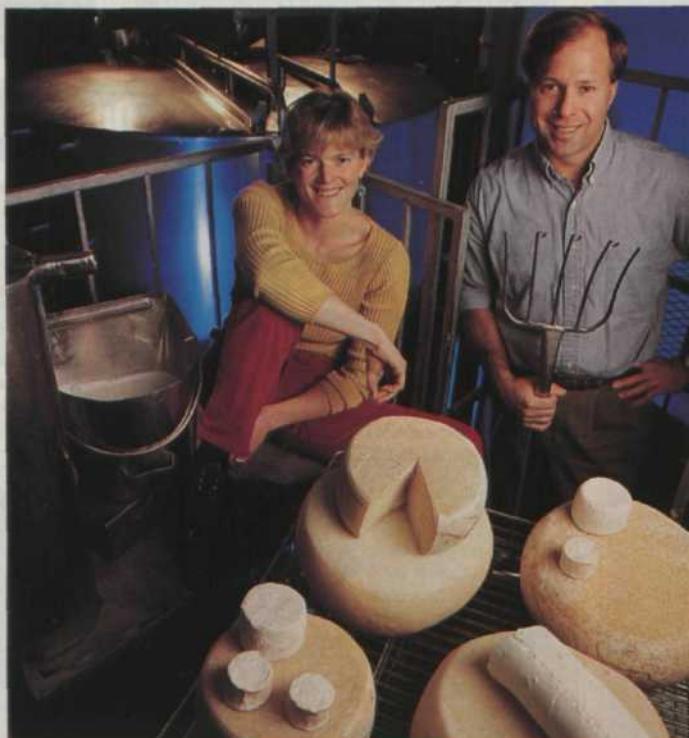


PHOTO: © WEBB CHAPPELL

Having "the right product at the right time," says Allison R. Hooper, helped turn her and partner Robert A. Reese into big cheeses in the specialty-food market.

and specialty-food stores nationwide.

Their customers include notable restaurants such as New York City's Tavern on the Green and Le Cirque, and their cheeses have won numerous national awards. In 1996, Hooper and Reese were named Vermont's Small Business Persons

business—and new specialty cheeses.

Yet it hasn't all been as smooth as butter. In 1987, after they borrowed \$90,000 to move to larger premises, an equipment failure nearly cost them their business. The bank refused to increase their loan, and they had to make a private stock offering, which was completed successfully just one week before the 1987 stock-market crash. The stock offering and an SBA-guaranteed

loan helped them avert tragedy. (The stock has since more than quadrupled in value.)

The battered old pickup is long gone. Today the firm, which has 17 employees, buys nearly 300,000 gallons of goat's milk from 31 family farms and produces over half a million pounds of cheese each year.

Eager to reach an even wider market, Hooper has spearheaded a marketing plan involving 19 other cheese-makers, who re-

cently formed the Vermont Cheese Council to highlight the diversity of Vermont's specialty cheeses. Likening the effort to California's Napa Valley Vintners Association, Hooper says, "Cheese can do for Vermont what wine has done for the Napa Valley."

Anyone who doubts her should remember that when she and Reese started their now-multimillion-dollar company, she was running a herd of goats. ■

A Hands-On Approach

By Carla Goodman

Building arms, legs, and braces from Space Age materials to help people with disabilities or injuries has earned two Auburn, Calif., entrepreneurs warm hugs and strong handshakes from grateful clients. And personalized service has helped make their firm one of northern California's largest independent manufacturers of prosthetic and orthotic devices.

"Everything we do here is custom and hands-on," says Arnold Lund, 51, a certified prosthetist and president of Advanced Bio-Mechanics. He founded the firm in 1984 and hired Edwin R. Arnold, his first employee, as a part-time bookkeeper. Two years later, Arnold, 41, became his partner and the firm's vice president.

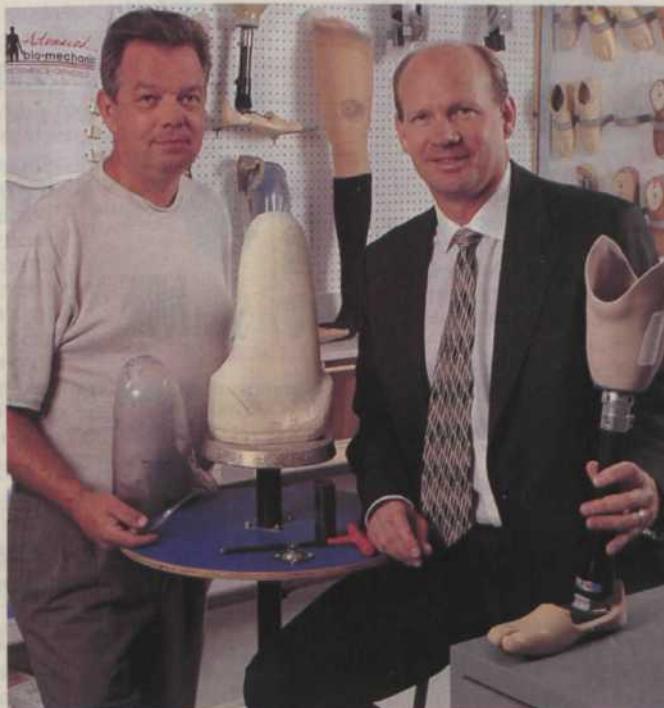
Advanced Bio-Mechanics has grown to 36 employees and 11 offices in 13 counties, generating \$3 million in sales annually. The firm's recent expansion—half of its offices have been opened within the past three years—is helping Lund and Arnold compete for large contracts with health-maintenance organizations.

The firm is succeeding "because we focus on what we do best," says Lund, who sold a prosthetics practice in Spokane, Wash., to move to Auburn for drier weather. "Ed takes care of the business operations. I concentrate on our patients."

Each year about 3,500 people, 300 requiring prostheses, are treated by Advanced Bio-Mechanics employees. Certified orthotists design and fit custom-made braces; certified prosthetists design and fit artificial limbs. Each office has ex-

amination rooms, a training room, and a self-contained laboratory filled with work tables and tools for making the devices.

Patients are fitted for everything from \$50 over-the-counter wrist splints to \$15,000 artificial limbs. Skilled technicians build the appliances using aluminum, titanium, graphite, and other materials to



With custom work and personalized service, the firm run by partners Arnold Lund, left, and Edwin Arnold has achieved significant growth in the field of manufacturing prosthetic and orthotic devices.

make them strong, light, and functional.

"Our laboratories are like prototype shops," Lund explains. "That's why our custom devices are so expensive. You can't turn out 50 size-mediums. Each is made to fit."

Patients walk, bend, and reach with their new limbs in the firm's training rooms, which are equipped with parallel handrails.

Lund and his staff conduct one-on-one rehabilitation sessions with a helping hand and an encouraging "Yes, you can."

"When people lose a limb and are close to despair, you can make a difference," says Lund, son of a Cincinnati prosthetist. "If you can open that door of possibilities and give people a glimmer of hope, they'll take off pretty much on their own."

One patient now faring well on her own is Luda Levashova, a Russian woman from Obninsk, near Moscow, who lost both legs in a train accident in 1997. She was flown to the United States by a good Samaritan for medical care.

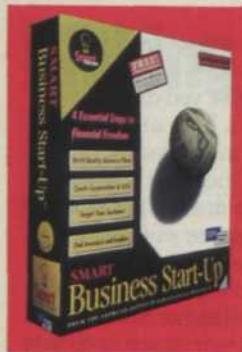
Lund built Levashova's new legs. Atop each is a supple polypropylene cup that slips over the bottom of the remaining portion of the leg, forming a vacuum to hold the prosthetic snug to the leg. Levashova's new legs, donated by Lund, cost about \$10,000 and together weigh about 10 pounds.

Jackie Dugan, a 34-year-old receptionist in a Sacramento, Calif., law firm, sat in a wheelchair for five months after losing part of her right leg in a car accident this year. She now wears a below-the-knee prosthesis with a suction cup similar to those worn by Levashova. The staff at Advanced Bio-Mechanics "gave me hope and helped me through my trauma," Dugan says. "I'm very grateful."

Lund and Arnold remain committed to personalized care and their firm's independence, even though large companies are buying up small prosthetic and orthotic firms and are marketing standardized services to large numbers of patients.

"As larger companies control more and more of the patient population, we've had to expand," says Arnold. "We've developed our own network of branches to cover a cohesive geographic area and tied it together with a centralized computer system. The more we can run Advanced Bio-Mechanics like a larger business, the more it allows us to stay independent." ■

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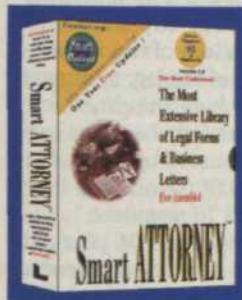
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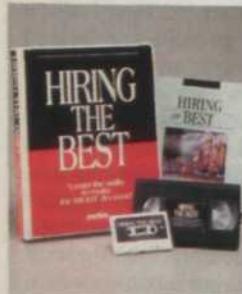


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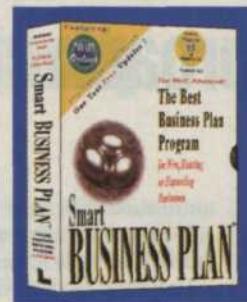
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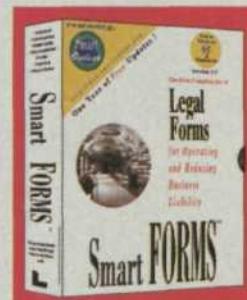


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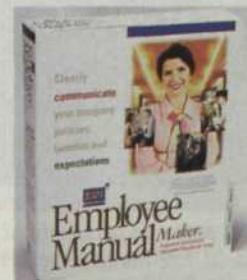


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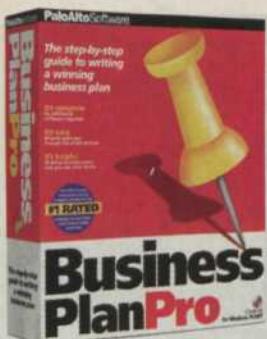


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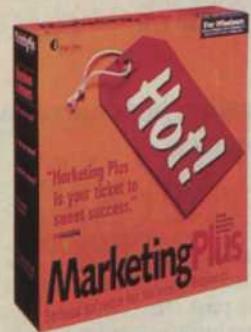
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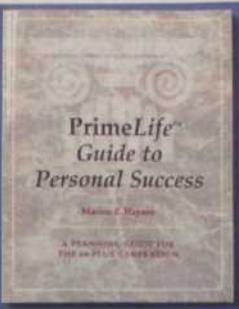


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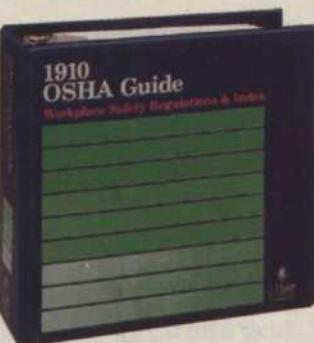
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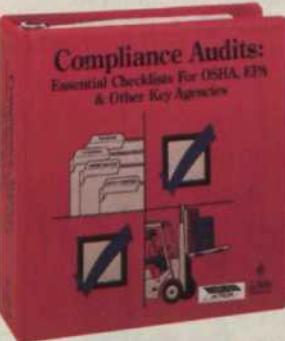
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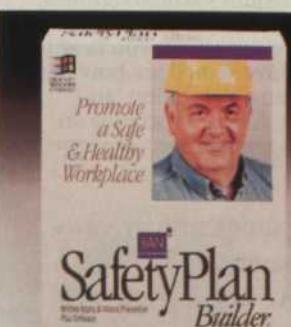


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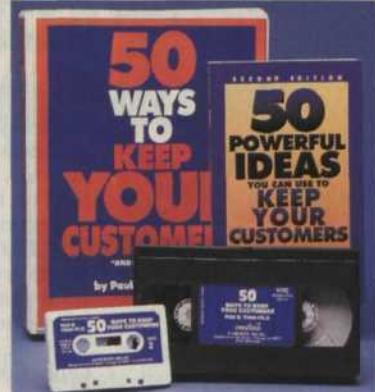
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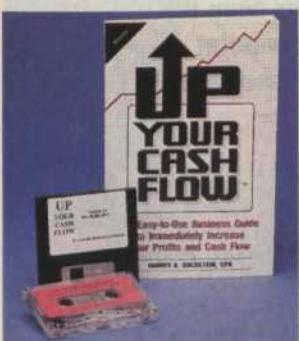
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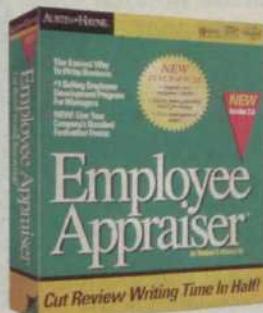
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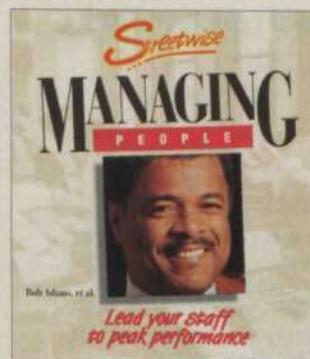


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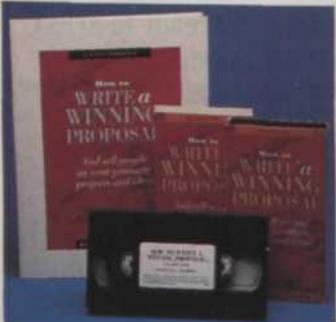
comes from building emotional partnerships. Learn how to ferret out customer likes and dislikes and how to use that information to shape your service...and learn how to handle repairs, refunds, and complaints to build business.

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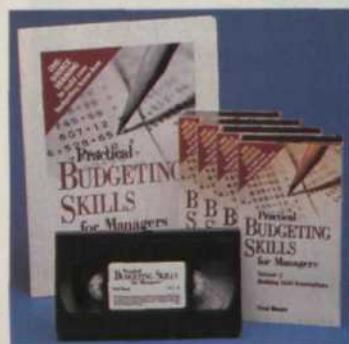
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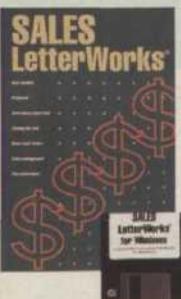
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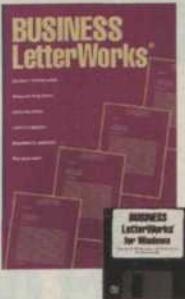
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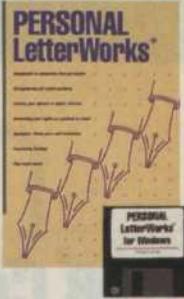
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Editorial

The 1997-98 Congress' Impact On Business

The 105th Congress ended its two-year tenure with a record of significant achievement—for the legislation it passed and for measures that it wisely rejected.

Business welcomed enactment of laws that provide for a balanced federal budget; overhaul of the Internal Revenue Service; a six-year, \$200 billion program for highway and other transportation improvements; tax relief; consolidation of more than 60 federal job-training programs; deferred implementation of anti-growth environmental controls; continued normal trade relations with China; and funding of the U.S. contribution to the International Monetary Fund.

Other business-backed measures that were passed include those to make it easier for businesses to seek assistance on job-safety compliance without threat of government retribution; increase the number of visas available to skilled foreign workers; set a three-year moratorium on state and local taxation of Internet commerce; close a loophole that enabled securities class-action suits at the state level; and advance the business goal of more privatization of government activities.

The lawmakers who served in the 1997-98 sessions of Congress also served the national interest in blocking several initiatives: a major tax increase masquerading as an anti-smoking initiative; federal health-care mandates on business; an increase in the minimum wage; and an effort to begin implementing a global climate-control treaty that business opposes and the Senate has not yet considered.

In addition to measures that rightly were passed—and those that rightly were defeated—another important aspect of the 105th Congress is legislation that should have been passed but was not.

Such matters include major changes in bankruptcy laws; more-extensive tax cuts; fast-track negotiating au-

thority for the administration on trade agreements; entitlement reforms; and a requirement that Congress assess the impact of its proposed actions on small business before issuing mandates affecting that key sector of the economy.

On balance, however, the 105th Congress compiled a sound record, and the partisan allegations that it was a "do-nothing" body are groundless. Those making that accusation fail to recognize that the sheer volume of new laws enacted is not the only measure of the accomplishments of a legislative body.

Rejection of massive tax increases and heavier government regulation of the economy is not a do-nothing approach but a very substantial contribution to the public interest.

For example, many critics of this Congress are referring to the rejection of health-care legislation as a "failure" to deal with a matter of great public concern.

The congressional majority fortunately recognized, however, that these so-called reform measures would have driven up premium costs, priced many em-

ployers out of the market for employee health insurance, and resulted in less, not better, coverage. Preventing such an outcome can scarcely be considered a failure.

In choosing this Congress in 1996, voters reaffirmed their historic decision two years earlier to give control of the national legislature to Republicans pledged to shrinking the role of government. In keeping with this mandate, the 104th Congress began curbing the power and intrusiveness of Washington.

The 105th Congress continued that process.

Far from being a do-nothing body, it carried out the assignment it received from voters to continue pursuing the goals of the political revolution of 1994.

That was no small accomplishment.

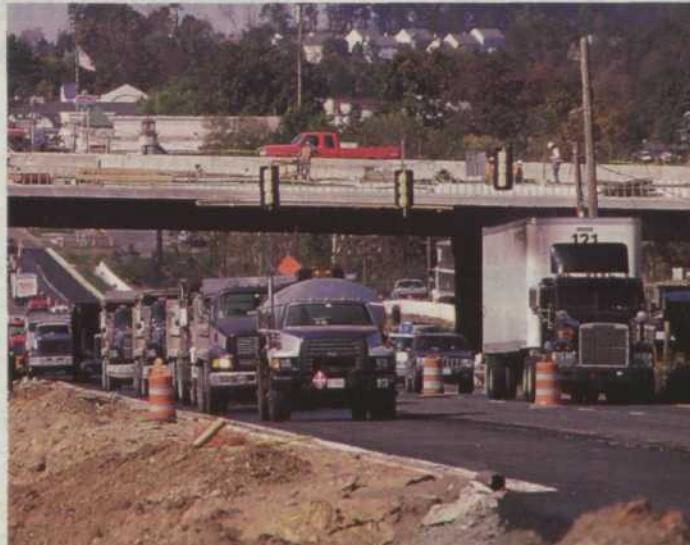


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Congressional passage of a \$200 billion program for transportation improvements was welcomed by business.

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THE BUSINESS ADVOCATE

SUPPLEMENT TO **Nation's Business** DECEMBER 1998

PUBLISHED BY U.S. CHAMBER OF COMMERCE
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WHAT'S HOT

Endorsements Pay Off



Congressional candidates backed by the U.S. Chamber won in 85 percent of the 291 races in

which the Chamber had endorsed a contender. For a complete list of Chamber-endorsed candidates who won election to the 106th Congress, see Pages 6A and 7A.

Future Work Force



U.S. Chamber President and CEO Thomas J. Donohue and retired Army Gen. Colin Powell are urging

Chamber members and all business people to mentor a young person on Feb. 2, which has been designated as National Groundhog Job Shadow Day. Details, Page 5A.

Important Business Vote



Turn to Page 4A to see how your senators voted on legislation to increase the federal minimum wage by

\$1 in two steps to \$6.15 an hour. The measure was defeated.

Chamber Benefits



The U.S. Chamber offers its members a host of benefits, services, and product discounts. For a list of some of these member benefits, see Page 8A.

Chamber Victories

Important Business Measures Enacted

The U.S. Chamber of Commerce helped win enactment of a number of measures important to its members and the U.S. economy in the final weeks of the congressional session.

"The U.S. Chamber, its allies, local chambers, and tens of thousands of grass-roots activists were able to win on a number of business issues in the closing weeks of the 105th Congress," said Thomas J. Donohue, Chamber president and CEO.

Those victories included:

- Extension of several business tax credits that had expired.
- Acceleration of the timetable for providing full deductibility of health-care costs to the self-employed.
- An increase in the number of visas for highly educated or trained immigrants to help ease the shortage of skilled workers.

■ Restrictions that prevent the U.S. Environmental Protection Agency from funding certain programs that would adversely impact business.

■ A delay in the implementation of an immigration-law provision that could have led to clogged borders.

■ A ban on further taxation of transactions conducted over the Internet.

■ Extension of a provision that helps open foreign markets to U.S. companies.

■ Adoption of a measure to help small businesses keep drugs out

of their workplaces.

■ Approval of a requirement that the federal government provide private-sector companies with the information needed to compete for federal contracts.

■ A requirement for a study on workplace activities and stress-related injuries that effectively delays the implementation of a federal ergonomics standard.

■ Protection from lawsuits for companies that make disclosures about their year 2000 computer problems.

■ Replenishment of the International Monetary Fund, which aids financially troubled nations whose economic health impacts businesses in the United States.

Most of the provisions were wrapped in the fiscal 1999 budget bill, which Congress approved and President Clinton signed in late October. Here are some details about the key measures:

Beneficial Tax Credits

Lawmakers extended until June 30, 1999, three important business tax credits: the research-and-experimentation, work-opportunity, and welfare-to-work credits. All were set to expire or had expired, and all were extended

Continued On Page 2A



Budget Bill Included Provisions On Health Care, Taxes, Other Issues

Continued From Page 1A

retroactively. The research-and-experimentation credit is equal to 20 percent of the amount of a company's R&E spending over a base amount.

The work-opportunity and welfare-to-work provisions allow companies to take a credit against taxes owed for hiring certain disadvantaged individuals, such as those on welfare.

The Chamber, which pushed for extension of the credits, has been fighting to make them permanent.

Health-Care Deduction

Self-employed individuals will be able to deduct 100 percent of their health-insurance premiums beginning Jan. 1, 2003—four years earlier than scheduled. The deduction, which is 45 percent for 1998, will rise to 60 percent for 1999 and stay at that level until it rises to 70 percent for 2002.

The Chamber has long sought full deductibility of health-care premiums for the self-employed.



Highly Skilled Immigrants

The number of visas for highly skilled immigrants was raised to address a shortage of workers in the United States.

The cap on H-1B visas, which allow foreign specialty-occupation workers to be employed in this country for up to six years, was increased to 115,000 for fiscal 1999 and 2000. For fiscal 1998, which ended Sept. 30, the cap was 65,000. That ceiling was reached in mid-May.

The cap will drop to 107,500 for fiscal 2001 and revert to 65,000 a year beginning in fiscal 2002.

The Chamber supported the increase in H-1B visas as a way to ease the worker shortage.

Environmental Programs

Clinton signed into law an agency funding bill that contains provisions that prohibit the U.S. Environmental Protection Agency from using its funds for implementing programs related to a United Nations climate treaty or the EPA's environmental-justice policy.

The latter is based on the premise that minorities and the poor have been subject to environmental discrimination because industrial facilities are more likely to be sited in their neighborhoods than in other areas. The Chamber opposes the EPA's environmental-justice policy.

The U.N. climate treaty, which has not yet been ratified by the U.S. Senate, requires developed nations to drastically cut their emissions of so-called greenhouse gases, which some scientists suspect are causing temperatures to rise worldwide. Other scientists contend that there is no global warming and that there is no link between greenhouse gases and temperatures.

The Chamber maintains that the emissions cuts called for in the U.N. treaty would wreck the U.S. economy.

Border-Crossing Provision

Congress delayed for 30 months the implementation of a provision in a 1996 immigration law that could have caused massive delays at U.S. border crossings.

Section 110 of the Immigration Reform and Immigrant Responsibility Act of 1996 requires every airport, seaport, and land border entry point to the United States to have an automated entry-exit control system in place to collect data on every alien. Before lawmakers stepped in to postpone it, the provision was set to take effect Sept. 30.

Lawmakers called for a feasibility

study on automated entry-exit control systems during the 2½-year delay.

Internet Tax Ban

A three-year moratorium was imposed on the collection of new taxes by states and localities on transactions conducted over the Internet. Taxes that were in effect before Oct. 1 can still be collected.

The moratorium provision also sets up a commission to study the issue of Internet taxes.

The Chamber supported the ban on Internet taxes.

Opening Foreign Markets

The Generalized System of Preferences (GSP) was extended through June 30, 1999. The measure allows the president to grant duty-free status to imports from certain developing nations.

The Chamber supported renewal of the GSP, which helps open foreign markets to U.S. goods and services.

Drug-Free Workplaces

Lawmakers rolled into the fiscal 1999 spending measure a bill approved by the House in June that offers financial incentives and technical assistance to small businesses to create drug-free workplaces.

The Drug-Free Workplace Act establishes a demonstration program under the U.S. Small Business Administration. The SBA will make grants to entities established to provide financial assistance to small businesses to set up drug-free-workplace programs.

The Chamber has made fighting drugs—and crime—a high priority.

Ergonomics Study

Language was included in the budget bill to fund a study by the National



Academy of Sciences on workplace ergonomics. The NAS study will examine the scientific findings on the relationship between work and repetitive-stress injuries, such as carpal-tunnel syndrome.

The Occupational Safety and Health Administration has been working on a rule to establish a workplace ergonomics standard, which could force businesses to modify workplaces and redesign jobs.

The Chamber opposes such a standard, pointing out that there is little or no scientific evidence that links job activities to repetitive-stress injuries.

While the provision requesting the ergonomics study does not prohibit OSHA from moving forward on a standard, Congress likely will discourage a final rule until the study is completed.

Year 2000 Computer Problem

The exposure of businesses to liability for losses caused by the year 2000, or Y2K, computer problem has been limited under legislation approved by Con-

gress and signed by Clinton.

(Some computers might crash or destroy or lose data on Jan. 1, 2000,

because they will interpret "00" as a year other than 2000.)

The measure prohibits in most cases the use in court of a firm's disclosures about its year 2000 problems. Businesses also are protected if their statements about Y2K problems—or attempts to fix them—turn out to be false or misleading unless it can be proved that they knowingly made such statements.

The Chamber supported the measure protecting firms against liability

related to efforts to deal with year 2000 computer problems.

Privatization

Congress approved the Federal Activities Inventory Reform Act to require federal agencies to detail all the functions they perform that are not "inherently governmental."

The measure provides private-sector firms additional information that would allow them to compete for contracts for work that heretofore has been performed by federal agencies.

The Chamber views the privatization reform as an important first step in opening many government functions to competition from the private sector.

International Monetary Fund

Lawmakers included in the budget bill funds to replenish the International Monetary Fund, which makes loans to financially troubled nations, usually in exchange for certain economic and trade-policy reforms.

The U.S. share to the IMF is \$17.9 billion. Nations that borrow from the

IMF must repay the loans with interest.

The Chamber backed the

IMF funding as a way to aid countries that import goods and services from the United States, providing U.S. jobs.

Chamber Members' Confidence In Economy Drops Significantly

The Business Confidence Index—based on the latest Business Ballot poll of U.S. Chamber members, conducted in October—dropped to its lowest level since October 1993.

The index fell to 46.7 this past October from 52.0 in August. In October 1993, the index was 46.4.

In the latest poll, the respondents who said they believed that the economy is headed down over the next six months outnumbered by nearly 5-to-1 those who believed it is headed up.

Also, respondents gave a six-month outlook for their firms' sales and employment levels and expressed their views on issues of concern. Following are complete poll results.

What is the six-month outlook for:

■ Your firm's sales?

Up	35.5%
Down	22.1%
No change	42.4%

■ Your firm's employment?

Up	22.2%
Down	12.5%
No change	65.3%

■ Where do you think the economy is headed over the next six months?

Up	11.2%
Down	54.5%
No change	34.3%

■ Which issue concerns you most at this time?

Taxes	47.4%
The education system	12.3%
The worker shortage	12.3%
Federal regulation	28.0%

■ Are you more concerned about the future of Medicare or of Social Security?

Medicare	31.8%
Social Security	68.2%

■ Which of these economic areas are you watching most carefully?

The U.S. economy	56.8%
The global economy	22.9%
The stock market	20.3%

Be sure to respond to this month's Business Ballot, in the plastic wrapper with this newsletter and your December Nation's Business.



Contact Your Senators About Minimum-Wage Vote

The U.S. Chamber is asking its members to thank senators who voted against a proposal to raise the federal minimum wage and to express their disappointment to senators who voted for the increase.

The Senate rejected the wage-hike

proposal, which was strongly opposed by the Chamber, in late September on a 55-44 vote.

Sponsored by Sen. Edward M. Kennedy, D-Mass., the measure would have raised the federal wage floor in two steps from the current \$5.15 an

hour to \$6.15 an hour by Jan. 1, 2000.

Senators can be reached by calling the Capitol switchboard at (202) 224-3121 or by writing the U.S. Senate, Washington, D.C. 20510.

Check the list below to see how your senators voted.

VOTED AGAINST RAISING THE MINIMUM WAGE

ALABAMA

Shelby (R)
Sessions (R)

ALASKA

Stevens (R)
Murkowski (R)

ARIZONA

McCain (R)
Kyl (R)

ARKANSAS

Hutchinson (R)

COLORADO

Campbell (R)
Allard (R)

DELAWARE

Roth (R)

FLORIDA

Graham (D)
Mack (R)

GEORGIA

Coverdell (R)

IDAHO

Craig (R)
Kempthorne (R)

INDIANA

Lugar (R)
Coats (R)

IOWA

Grassley (R)

KANSAS

Brownback (R)
Roberts (R)

KENTUCKY

McConnell (R)

MAINE

Snowe (R)
Collins (R)

MICHIGAN

Abraham (R)

MINNESOTA

Grams (R)

MISSISSIPPI

Cochran (R)
Lott (R)

MISSOURI

Bond (R)
Ashcroft (R)

MONTANA

Burns (R)

NEBRASKA

Hagel (R)

NEW HAMPSHIRE

Smith (R)
Gregg (R)

NEW MEXICO

Domenici (R)

NORTH CAROLINA

Helms (R)
Faircloth (R)

OHIO

DeWine (R)

OKLAHOMA

Nickles (R)
Inhofe (R)

OREGON

Smith (R)

PENNSYLVANIA

Santorum (R)

RHODE ISLAND

Chafee (R)

SOUTH CAROLINA

Thurmond (R)
Hollings (D)

TENNESSEE

Thompson (R)
Frist (R)

TEXAS

Gramm (R)
Hutchison (R)

UTAH

Hatch (R)
Bennett (R)

VERMONT

Jeffords (R)

VIRGINIA

Warner (R)

WASHINGTON

Gorton (R)

WYOMING

Thomas (R)
Enzi (R)

VOTED FOR RAISING THE MINIMUM WAGE

DELAWARE

Biden (D)

GEORGIA

Cleland (D)

HAWAII

Inouye (D)
Akaka (D)

ILLINOIS

Moseley-Braun (D)
Durbin (D)

IOWA

Harkin (D)

KENTUCKY

Ford (D)

LOUISIANA

Breaux (D)
Landrieu (D)

MARYLAND

Sarbanes (D)
Mikulski (D)

MASSACHUSETTS

Kennedy (D)
Kerry (D)

MICHIGAN

Levin (D)

MINNESOTA

Wellstone (D)

MONTANA

Baucus (D)

NEBRASKA

Kerrey (D)

NEVADA

Reid (D)
Bryan (D)

NEW JERSEY

Lautenberg (D)
Torricelli (D)

NEW MEXICO

Bingaman (D)

NEW YORK

Moynihan (D)
D'Amato (R)

NORTH DAKOTA

Conrad (D)
Dorgan (D)

OREGON

Wyden (D)

PENNSYLVANIA

Specter (R)

RHODE ISLAND

Reed (D)

SOUTH DAKOTA

Daschle (D)
Johnson (D)

VERMONT

Leahy (D)

VIRGINIA

Robb (D)

WASHINGTON

Murray (D)

WEST VIRGINIA

Byrd (D)
Rockefeller (D)

WISCONSIN

Kohl (D)
Feingold (D)

DID NOT VOTE

Glenn (D)



Firms Urged To Be Mentors



PHOTO: T. MICHAEL KEZA

Retired Army Gen. Colin Powell urges firms to participate in a mentoring program. U.S. Chamber President and CEO Thomas J. Donohue, background, pledged the Chamber's support.

U.S. Chamber members can help influence the workers of the future by participating in a youth-mentoring day on Feb. 2.

The U.S. Chamber has joined with several prominent organizations to promote the mentoring day and is urging its member companies to participate by inviting young people into their workplaces for a close-up look at the business world. Feb. 2 has been designated the second National Groundhog Job Shadow Day.

The Chamber—along with several other business organizations—is teaming with Alexandria, Va.-based America's Promise: The Alliance for Youth, which works to improve the lives of "at-risk youth"; the Washington-based American Society of Association Executives; Junior Achievement, an economic-education organization headquartered in Colorado Springs, Colo.; and the Washington-based National School-to-Work Office, which encourages partnerships between businesses and educators and is administered by

the U.S. Labor and Education departments.

"We are committed to assisting our members in finding workers who are able to compete in this global economy," said Chamber President and CEO Thomas J. Donohue in announcing the Chamber's support for the program. He called the job-mentoring program a "good way for employers to find future workers."

Retired Army Gen. Colin Powell, former chairman of the Joint Chiefs of Staff and now chairman of America's Promise, said at an Oct. 22 event at the Chamber highlighting the effort: "Everywhere I travel, U.S. Chamber members tell me about their constant struggle with finding skilled employees. Participating in this event is a win-win situation. Employers will be able to share with students what will be expected of

them in the workplace, and students will experience firsthand what a day in the 'real world' has to offer."

To learn more about the mentoring program, call (202) 452-9441 or visit the National Groundhog Job Shadow Day site on the World Wide Web at www.jobshadow.org.

FACT FILE

In 1996, a presidential election year, just 49.08 percent of the voting-age population cast ballots. The previous presidential election year—1992—55.09 percent voted.

In the last off-year (nonpresidential) election—in 1994—just 38.78 percent of voting-age Americans voted. The lowest turnout in the past 38 years was in 1986—an off-year election—when only 36.52 percent of the voting-age population went to the polls.

—Federal Election Commission

Companies with fewer than 500 workers represent more than 99 percent of all employers, employ 52 percent of the private work force, and employ 61 percent of the private workers on public assistance. Small firms also provide 51 percent of the private-sector output, represent 69 percent of all exporters of goods, and receive 35 percent of federal contract dollars.

—U.S. Small Business Administration

There were 17,253,000 women- and minority-owned firms in 1992, the latest year for which figures are available.

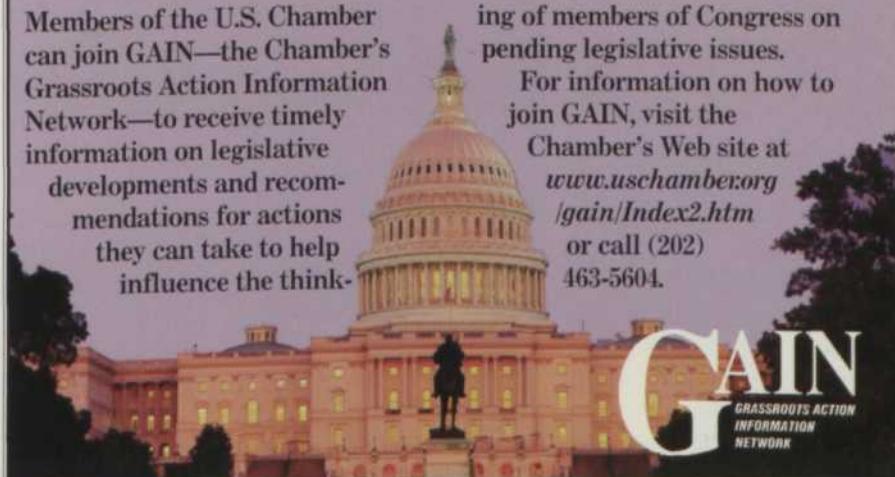
—Bureau of the Census

How You Can Join GAIN

Members of the U.S. Chamber can join GAIN—the Chamber's Grassroots Action Information Network—to receive timely information on legislative developments and recommendations for actions they can take to help influence the think-

ing of members of Congress on pending legislative issues.

For information on how to join GAIN, visit the Chamber's Web site at www.uschamber.org/gain/Index2.htm or call (202) 463-5604.



GAIN
GRASSROOTS ACTION INFORMATION NETWORK



Chamber-Endorsed Candidates Win Election

Eighty-five percent of the congressional candidates endorsed by the U.S. Chamber in the Nov. 3 elections won their races.

The business federation was successful in 13 of the 20 Senate races and 233 of the 271 House races in which it en-

dored candidates. Thirty-four Senate and 435 House seats were up for election. In 1996, the Chamber's success rate was 76 percent.

"We will continue to have in the congressional leadership positions and as chairmen of the various committees

conservative members of Congress with strong records of support for the business community," said Lonnie Taylor, the Chamber's senior vice president for congressional and public affairs.

Following are the Chamber-endorsed winners.

SENATE

ALASKA

Frank H. Murkowski (R)

ARIZONA

John McCain (R)

GEORGIA

Paul Coverdell (R)

IDAHO

Michael Crapo (R)*

ILLINOIS

Peter Fitzgerald (R)*

IOWA

Charles E. Grassley (R)

KANSAS

Sam Brownback (R)

KENTUCKY

Jim Bunning (R)*

MISSOURI

Christopher "Kit" S. Bond (R)

NEW HAMPSHIRE

Judd Gregg (R)

OHIO

George Voinovich (R)*

OKLAHOMA

Don Nickles (R)

UTAH

Robert Bennett (R)

*New member of the Senate.

HOUSE OF REPRESENTATIVES

ALABAMA

- 1 Sonny Callahan (R)
- 2 Terry Everett (R)
- 3 Bob Riley (R)
- 4 Robert B. Aderholt (R)
- 6 Spencer Bachus (R)

ALASKA

AL Don Young (R)

ARIZONA

- 1 Matt Salmon (R)
- 3 Bob Stump (R)
- 4 John Shadegg (R)
- 5 Jim Kolbe (R)
- 6 J.D. Hayworth (R)

ARKANSAS

- 3 Asa Hutchinson (R)
- 4 Jay Dickey (R)

CALIFORNIA

- 2 Wally Herger (R)
- 3 Doug Ose (R)**
- 4 John Doolittle (R)
- 11 Richard Pombo (R)
- 15 Tom Campbell (R)
- 18 Gary Condit (D)
- 19 George P. Radanovich (R)
- 20 Cal Dooley (D)
- 21 William M. Thomas (R)
- 23 Elton Gallegly (R)
- 25 Howard "Buck" McKeon (R)
- 27 James E. Rogan (R)
- 28 David Dreier (R)
- 36 Steve Kuykendall (R)**
- 38 Steve Horn (R)
- 39 Edward Royce (R)
- 40 Jerry Lewis (R)
- 41 Gary Miller (R)**

43 Ken Calvert (R)

- 44 Mary Bono (R)
- 45 Dana Rohrabacher (R)
- 47 Christopher Cox (R)
- 48 Ron Packard (R)
- 49 Brian Bilbray (R)
- 51 Randy Cunningham (R)
- 52 Duncan Hunter (R)

COLORADO

- 3 Scott McInnis (R)
- 4 Bob Schaffer (R)
- 5 Joel Hefley (R)
- 6 Tom Tancredo (R)**

CONNECTICUT

- 6 Nancy L. Johnson (R)

DELAWARE

AL Michael Castle (R)

FLORIDA

- 1 Joe Scarborough (R)
- 2 F. Allen Boyd Jr. (D)
- 4 Tillie Fowler (R)
- 6 Cliff Stearns (R)
- 7 John Mica (R)
- 8 Bill McCollum (R)
- 9 Michael Bilirakis (R)
- 10 C.W. Bill Young (R)
- 12 Charles Canady (R)
- 13 Dan Miller (R)
- 14 Porter J. Goss (R)
- 15 David Weldon (R)
- 16 Mark Foley (R)
- 18 Ileana Ros-Lehtinen (R)
- 21 Lincoln Diaz-Balart (R)
- 22 E. Clay Shaw Jr. (R)

GEORGIA

- 1 Jack Kingston (R)

3 Michael "Mac" Collins (R)

- 6 Newt Gingrich (R)
- 7 Bob Barr (R)
- 8 Saxby Chambliss (R)
- 9 Nathan Deal (R)
- 10 Charles Norwood (R)
- 11 John Linder (R)

IDAHO

- 1 Helen Chenoweth (R)
- 2 Mike Simpson (R)**

ILLINOIS

- 6 Henry J. Hyde (R)
- 8 Philip M. Crane (R)
- 10 John Edward Porter (R)
- 11 Jerry Weller (R)
- 13 Judy Biggert (R)*
- 14 J. Dennis Hastert (R)
- 15 Thomas Ewing (R)
- 16 Donald Manzullo (R)
- 18 Ray LaHood (R)
- 20 John M. Shimkus (R)

INDIANA

- 2 David McIntosh (R)
- 4 Mark Souder (R)
- 5 Steve Buyer (R)
- 6 Dan Burton (R)
- 7 Edward A. Pease (R)
- 8 John N. Hostettler (R)

IOWA

- 1 Jim Leach (R)
- 2 Jim Nussle (R)
- 3 Leonard L. Boswell (D)
- 4 Greg Ganske (R)
- 5 Tom Latham (R)

KANSAS

- 1 Jerry Moran (R)



HOUSE OF REPRESENTATIVES

2 Jim R. Ryun (R)
4 Todd Tiahrt (R)

KENTUCKY

1 Edward Whitfield (R)
2 Ron Lewis (R)
3 Anne M. Northup (R)
5 Harold Rogers (R)
6 Earnest Fletcher (R)**

LOUISIANA

1 Bob Livingston (R)
3 W. J. "Billy" Tauzin (R)
4 Jim McCrery (R)
5 John C. Cooksey (R)
6 Richard H. Baker (R)
7 Chris John (D)

MARYLAND

1 Wayne Gilchrest (R)
2 Robert Ehrlich Jr. (R)
6 Roscoe Bartlett (R)
8 Connie Morella (R)

MICHIGAN

2 Peter Hoekstra (R)
3 Vernon Ehlers (R)
4 Dave Camp (R)
6 Fred Upton (R)
7 Nick Smith (R)
11 Joseph Knollenberg (R)

MINNESOTA

1 Gil Gutknecht (R)
3 Jim Ramstad (R)
7 Collin Peterson (D)

MISSISSIPPI

1 Roger Wicker (R)
3 Charles "Chip" Pickering Jr. (R)

MISSOURI

2 James Talent (R)
7 Roy Blunt (R)
8 Jo Ann H. Emerson (R)
9 Kenny C. Hulshof (R)

MONTANA

AL Rick A. Hill (R)

NEBRASKA

1 Doug Bereuter (R)
2 Lee Terry (R)**
3 Bill Barrett (R)

NEVADA

2 James A. Gibbons (R)

NEW HAMPSHIRE

1 John E. Sununu (R)
2 Charles Bass (R)

NEW JERSEY

2 Frank A. LoBiondo (R)
3 Jim Saxton (R)
5 Marge Roukema (R)
7 Bob Franks (R)
11 Rodney Frelinghuysen (R)

NEW MEXICO

1 Heather Wilson (R)
2 Joe Skeen (R)

NEW YORK

1 Michael P. Forbes (R)
2 Rick Lazio (R)
3 Peter King (R)
13 Vito Fossella (R)
19 Sue W. Kelly (R)
22 John Sweeney (R)**
24 John McHugh (R)
25 James T. Walsh (R)
27 Tom Reynolds (R)**
30 Jack Quinn (R)
31 Amo Houghton (R)

NORTH CAROLINA

2 Bob Etheridge (D)
3 Walter Jones Jr. (R)
5 Richard M. Burr (R)
6 Howard Coble (R)
7 Mike McIntyre (D)
8 Robin Hayes (R)**
9 Sue Myrick (R)
10 Cass Ballenger (R)
11 Charles H. Taylor (R)

OHIO

1 Steve Chabot (R)
2 Rob Portman (R)
4 Michael G. Oxley (R)
5 Paul E. Gillmor (R)

7 David Hobson (R)
8 John A. Boehner (R)
12 John R. Kasich (R)
15 Deborah Pryce (R)
16 Ralph Regula (R)
18 Bob Ney (R)
19 Steven C. LaTourette (R)

OKLAHOMA

1 Steve Largent (R)
2 Tom Coburn (R)
3 Wes Watkins (R)
4 J.C. Watts (R)
5 Ernest Istook Jr. (R)
6 Frank D. Lucas (R)

OREGON

2 Greg Walden (R)**

PENNSYLVANIA

5 John E. Peterson (R)
7 Curt Weldon (R)
8 Jim Greenwood (R)
9 Bud Shuster (R)
10 Don Sherwood (R)**
15 Pat Toomey (R)**
16 Joseph R. Pitts (R)
17 George W. Gekas (R)
19 William F. Goodling (R)
21 Philip S. English (R)

SOUTH CAROLINA

1 Mark Sanford Jr. (R)
2 Floyd Spence (R)
3 Lindsey Graham (R)
4 Jim DeMint (R)**

SOUTH DAKOTA

AL John R. Thune (R)

TENNESSEE

1 William L. Jenkins (R)
2 John J. Duncan Jr. (R)
3 Zach Wamp (R)
4 Van Hilleary (R)
7 Ed Bryant (R)
8 John Tanner (D)

TEXAS

1 Max A. Sandlin (D)
2 Jim Turner (D)
3 Sam Johnson (R)

4 Ralph M. Hall (D)
5 Pete Sessions (R)
6 Joe Barton (R)
7 Bill Archer (R)
8 Kevin P. Brady (R)
12 Kay Granger (R)
13 William "Mac" Thornberry (R)
14 Ron E. Paul (R)
17 Charles W. Stenholm (D)
19 Larry Combest (R)
21 Lamar S. Smith (R)
22 Tom DeLay (R)
23 Henry Bonilla (R)
26 Richard K. Armey (R)

UTAH

1 James V. Hansen (R)
2 Merrill Cook (R)
3 Christopher Cannon (R)

VIRGINIA

1 Herbert H. Bateman (R)
5 Virgil H. Goode Jr. (D)
6 Bob Goodlatte (R)
7 Thomas J. Bliley Jr. (R)
10 Frank R. Wolf (R)
11 Thomas M. Davis III (R)

WASHINGTON

2 Jack Metcalf (R)
4 Doc Hastings (R)
5 George Nethercutt Jr. (R)
8 Jennifer Dunn (R)

WISCONSIN

1 Paul Ryan (R)**
6 Thomas E. Petri (R)
8 Mark Green (R)**
9 F. James Sensenbrenner Jr. (R)

WYOMING

AL Barbara Cubin (R)

**New member of the House.

Here are some of the most important products, services, and programs offered by the U.S. Chamber.



Discounts On IBM Products

Chamber members can receive a discount on products from IBM Corp.

The company has set up a MembersPlus Program to

help Chamber members purchase the

latest IBM technology.

For more information about the program, visit the IBM Web site at www.ibm.com/businesscenter/membersplus or call 1-800-426-7235, Ext. 5232. Use PIN No. usmem.

Continuing Education

The Institutes for Organization Management, a continuing-education program for association and local and state chamber executives, has set its 1999-2000 schedule.

The U.S. Chamber program helps association and chamber executives strengthen their leadership, management, interpersonal, and communications skills.

Sessions for chamber executives are scheduled for June 6-11 at the University of Notre Dame, South Bend, Ind.; June 13-18 at the University of Georgia, Athens, Ga.; June 27-July 2 at the University of California, Los Angeles; July 18-23 at Colorado College, Colorado Springs, Colo.; July 25-30 at the College of Charleston, Charleston, S.C.; Aug. 1-6 at the University of Delaware, Newark; and Jan. 5-10, 2000, at the University of Arizona, Tucson, Ariz.

Sessions for association executives will be held on the dates listed above only at the following campuses: Notre Dame, UCLA, Charleston, Delaware, and Arizona.

For enrollment information, including a catalog on the program, call (202)



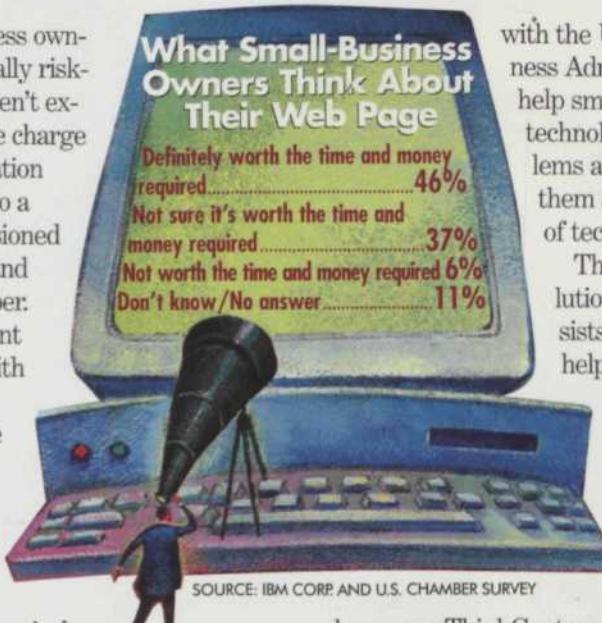
Keeping Up With Technology

Small-business owners—typically risk-takers—aren't exactly leading the charge into the information age, according to a survey commissioned by IBM Corp. and the U.S. Chamber.

Just 25 percent of companies with 100 or fewer employees have a site on the World Wide Web, the survey found, and less than half of the companies' owners believe their Web pages are worth the time and money they put into them. (See the chart.)

On average, small companies spend \$7,000 a year on technology, according to the survey. The study concluded that small-business owners are cautious and uncertain about what technology to buy, where to purchase it, and to whom to turn for help and advice about technology.

The Chamber and IBM have teamed



SOURCE: IBM CORP. AND U.S. CHAMBER SURVEY

with the U.S. Small Business Administration to help small firms with technology-related problems and to educate them about the benefits of technology.

This Small Office Solutions initiative consists of technology help centers at selected local chambers of commerce and regional SBA locations.

The help centers,

known as ThinkCenters, will open in early 1999 in the SBA's Business Information Centers in Albany, N.Y.; El Paso, Texas; and Spokane, Wash.; and in the Chicagoland Chamber of Commerce in Chicago. They will offer on-site help and literature, and small-business owners will be able to get hands-on experience with computers and Internet technologies.

For more information about the program, visit www.ibm.com/businesscenter or call IBM at 1-888-426-5800.

463-5570 or visit the Institutes for Organization Management Web site at www.uschamber.org/iom.



Apply Now For Blue Chip Program

Applications for the 1999

Blue Chip Enterprise Initiative, which recognizes small businesses that have overcome significant challenges, are being accepted. The deadline is Jan. 29.

The annual program is co-sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber, and *Nation's Business*, the Chamber's monthly business magazine.

An application can be obtained by visiting the *Nation's Business* Web site at www.nbmag.com or by calling 1-800-FOR-BCEI (1-800-367-2234).



Retirement-Plan Discounts Available

Affordable, accessible, and convenient retirement plans are available to U.S. Chamber members at a discount through the Chamber and Fidelity Investments.



Fidelity Investments

For more information, call Fidelity

toll-free at 1-888-RET-PLAN (1-888-738-7526).